Volume I

Overview of the Budget

Thomas M. Menino, Mayor
Robert J. Ciolek, Chief Operating Officer

City of Boston

**Fiscal Year 1995
Operating Budget**

Fiscal Year 1995 Operating Budget

Volume I
Overview of the Budget

THOMAS M. MENINO, MAYOR

Robert J. Ciolek, Chief Operating Officer
Administrative Services Department

Barbara S. Gottschalk, Director
Office of Budget and Program Evaluation

Doris M. Gagnon
Deputy Director, Budget

Neil H. Gordon
Deputy Director, Program Evaluation

Budget & Program Analysis

John Chan
Walter Flynn
Barry Fadden
David Aronson
Patricia DeMarco
Mary Lou Donovan
Naomi Isler
Darrell Crockett
Declan O'Brien
Anthony Reppucci

Revenue Analysis

James Kennedy

Improving Management Project

Neil Gordon
Lynda Fraley
Enrique Balaguer
Diane MacDonald

Health & Hospitals

Diane MacDonald

Schools

Marianne Regan

Information Systems

Gerard Rufo
John Cronin

Administration & Support

Denise Jordan
Deborah DeLeo
Susan Magoon
Geraldina DeFlumeri
Jacquelyn Murphy

---

with assistance from: Paul D. Parisi and Larry Kelly (MicroData, Inc.)

CONTENTS

Volume I Overview of the Budget

Letter of Transmittal: Thomas M. Menino, Mayor

Executive Summary 1

Summary Budget 11

Tax Order 23

Revenue Estimates and Analysis 35

Transition 59

The FY95 Budget and Performance Goals Process 67

Financial Management of the City 73

Capital Budgeting 83

Statutes and Ordinances Governing Boston's Operating Budget 91

Boston — Its Economy, People and Neighborhoods 99

Budget Organization and Glossary 107

Volume II Recommended Budget

Volume III Recommended Budget

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

City of Boston,

Massachusetts

For the Fiscal Year Beginning

July 1, 1993

Arnold L. Haley Jeffrey L. Esser

President Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Presentation to the City of Boston for its annual budget for the fiscal year beginning July 1, 1993.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Special Note

In the program budgets which follow you will find many different types of performance measures. There are major goals listed for each department, stated as quantifiable outcomes that department heads will be held accountable for. There are selected service indicators depicting historical trends for measures of resources, workload, and productivity. These also include key indicators of administrative efficiency — sick leave, processing time of vendor payments, and lost time due to injury on the job — which are tracked for all departments. Finally, there are detailed program objectives (to be printed in an appendix) that are tied to promised levels of service to be reported on monthly by each program manager. These detailed reports will be the mechanism for monitoring performance against all of the goals, historical indicators, and specific programmatic initiatives.

At the Cabinet level, the broader, long-term goals of the Mayor are identified that provide the direction for the more detailed departmental goals and objectives. While the Cabinet goals outline the major initiatives that will be addressed, there are also shared goals that cut across all of the cabinets and departments. These are:

- To ensure maximum access to city government and satisfaction with city services by meeting with, surveying, and responding to residents on a continual basis;
- To actively pursue opportunities for cooperation and teamwork across city departments to solve problems or improve services;
- To strive to develop a professional, qualified workforce that is representative of the diversity of the City, in order to achieve the high standards of productivity and efficiency set for every program in every department.

The emphasis on performance monitoring and accountability in these program budgets will ensure that Boston residents are getting high quality services delivered in a cost-effective manner.

Technical Note

The City of Boston Fiscal Year 1995 Operating Budget was electronically published using Xerox Ventura Publisher 3.0, a professional page layout and document composition system, and the Budget Reporting and Analysis System (BRASS), a custom, PC-based database application designed by the Office of Budget and Program Evaluation. Graphics were produced using Lotus Freelance Graphics for Windows 2.01.

All production was done within the Office of Budget and Program Evaluation. Document design assistance was provided *pro bono* by John Deputy of MetroDesign. Technical development and support was provided by Paul Parisi and Larry Kelly of MicroData Corp., and hardware support from the City of Boston, Management Information Systems Division. Special thanks to Allan Stern and Mike Hernon of MIS.

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

April 13, 1994

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith my proposed Fiscal Year 1995 Operating Budget for the City of Boston and the County of Suffolk. This Budget, in the amount of $1.396 billion, is the City's tenth consecutive balanced budget submission.

This, the first Proposed Budget of my Administration, sets out in dollars and in performance commitments, my priorities and administrative strategies for the next four years. This Budget reflects both what City government should be about, and how it should operate. It also lays out the financial realities under which the City must operate.

The FY95 Budget is based on my service priorities--a safe, clean City in which to live and work, concern for our children, and modest investments to maintain and enhance government's effectiveness. I am recommending funding for three classes of 40 police officers to fully support my commitment to community policing. These classes mean that uniformed strength will increase from 1,920 today to an estimated 2,030 by June of 1995, a nearly six percent increase. It is my plan, based on the current revenue and expenditure outlook, to provide similar numbers of new officer classes for the next several fiscal years.

Keeping up appearances is critical to our efforts to make Boston an attractive place to live and do business. The FY95 Budget directs more resources to street cleaning and repairs, and we will be exploring new ways of providing these services most effectively. This Budget also makes a major new commitment to increase recycling programs in Boston. A 58 percent increase in funding for recycling will expand the number of neighborhoods serviced by "blue boxes" for bottles and cans, and provide more frequent and predictable newspaper collections.

Both libraries and community centers will be open more hours in FY95. Added funding supports opening the Central Library at Copley Square for four hours on Sundays, and provides four more open Saturday hours at four branch libraries. Fourteen Community Centers will now be open for eight hours every Saturday, and will have Friday night hours extended from 9 pm to 1 am for nine weeks in the summer. These extended hours will provide all Boston residents, and particularly our young people, with added opportunities for learning and recreation.

The Budget makes modest investments in new equipment and technology. There will be new investment in Public Works vehicles, funding for automation of Inspectional Services Department files and management systems, and support for a strategic plan for

BOSTON CITY HALL • ONE CITY HALL PLAZA • BOSTON • MASSACHUSETTS 02201 • 617/635-4000

technological innovation City-wide. We must take advantage of new technologies if we want to provide better service more efficiently.

As important as these proposals for funding specific priorities and programs are, this Budget is also a blueprint for management in my Administration. It lays out both a new organizational structure and a clear set of performance commitments for FY95.

The Budget is organized according to the new Cabinet structure. Presenting total personnel and funds from all sources for each Cabinet area shows for the first time how much resources are devoted to each functional responsibility within City government. In addition, identifying a single person responsible for all the activities in each of these functional areas sets the stage for more coordination between, and streamlining of, old bureaucracies.

In addition to the new structure, this Budget includes several new or reorganized departments. There are new Offices of Civil Rights, Special Events and Tourism, and Cultural Affairs to put added focus on these important functions. The responsibilities of the Public Facilities and Real Property Departments have been realigned to create a new Property Management Department, and to refocus Public Facilities on its fundamental mission of planning and new construction. The MIS Division has been restructured as a Department of Management and Information Services with a new mandate to oversee management reporting and analysis.

Perhaps most important, this FY95 Budget includes more specific, quantified performance goals for each department and for each cabinet. While the new Cabinet structure supports improved performance, the ultimate measure of success is not a new organization chart but more and better services delivered at less cost.

Finally, this Budget reflects the fiscal realities we face. There are always areas in which we would like to do more. But I am firmly committed to keeping Boston on a sound financial footing. Without that foundation, increases in services are short sighted. Thus this Budget husbands reserves and proposes only what we can afford. Further expansion of services will come only if we can provide the basics more efficiently and if we can assume greater responsibility for our revenue options. Gaining this responsibility will be the challenge for the next four years.

My Administration looks forward to working with the City Council as you review this Proposed Budget. I encourage your suggestions as to how to make this review as useful and constructive as possible.

Sincerely,

Thomas M. Menino
Mayor of Boston

Executive Summary

Executive Summary

The FY95 Budget recognizes the financial realities and fiscal limits on the City's ability to provide new services.

Introduction

Mayor Menino's FY95 Proposed Budget establishes the framework for a bold new restructuring of City government based on carefully defined spending priorities, and a keen awareness of the fiscal realities facing the City of Boston. This FY95 Proposed Budget charts a course for the City administration over the next four years toward a more accountable, customer-oriented, efficient City government.

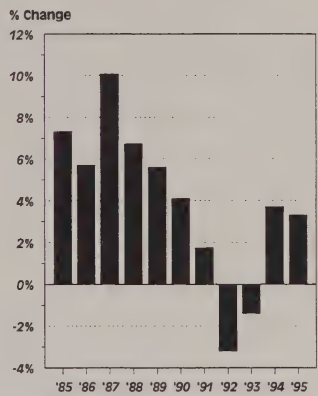
Fundamental to improving the City's operations is a new cabinet structure of government. The FY95 Budget is organized according to this new structure which is designed to establish accountability to the Mayor for achievement of specific performance goals, to improve cross departmental coordination, and to deliver services as efficiently as possible. The policy priorities and goals articulated within this new structure are supported by the resources included in this Proposed Budget.

Underlying the FY95 Budget is recognition of the financial realities and fiscal limits on the City's ability to provide new services. While there is a relative upswing in the City's immediate financial outlook, the fundamental structural revenue gap remains. The Menino Administration's clear understanding of the limits this fact imposes on future spending underlies each line item in this Proposed Budget.

Financial Outlook

After several years of budget reductions in response to absolute revenue declines, FY95 revenues will provide for a modest 3.2 percent increase in total spending. See Figure 1. This increase is a result of a 4.1 percent increase in net property tax levy, a 3 percent increase in local aid, and increases in other excises as a result of a gradual recovery in Boston's economy. With a continuation of this recovery, and a state commitment to the Education Reform funding formula, this modest level of revenue increase should continue over the next several years.

Boston's operating budget is revenue-driven. Because of the City's very limited ability to expand revenue sources without approval by the Commonwealth, expenditures must be adjusted to reflect available revenues. Boston has been able to maintain balanced budgets over the past several years by reducing expenditures. In addition to service reductions and reductions in City personnel, the fact that City employees did not receive collective bargaining increases helped to contain expenditures. The City is now committed to modest annual wage increases through FY96. This increase in personnel costs, the largest single element in departmental appropriations, means that the capacity to maintain service levels will primarily be a reflection of the City's ability to find ways to deliver both existing and proposed services more efficiently.



Annual Change in City Revenues
FY85 - FY95

Figure 1

In order to balance the budget over the next several years while maintaining current service levels, it is anticipated that the City will need to gradually spend down the modest reserve remaining from the sale of Central Artery property to the Commonwealth. While spending non-recurring revenues for recurring expenses is a less than ideal fiscal policy, this reserve will give the City some comfort in dealing with its revenue gap over the next few years.

The most problematic element in a multi-year revenue forecast is the state's commitment to funding the financial provisions of the Education Reform Act of 1993. Even though the Commonwealth is projecting 6 percent revenue growth in FY95, recent experience suggests caution in relying on state expenditure commitments. Beyond reliance on the Commonwealth to support the Education Reform funding formula, Boston could be subject to considerable financial jeopardy when the charter school provisions are implemented. The Education Reform law requires that the City fund these charter schools at a level equal to Boston's average per pupil cost for each Boston child attending these schools.

Another issue that inhibits the City's capacity to manage is the disproportionate share of Suffolk County corrections costs paid by the City. Not only does Boston pay all the local share without contributions from the other Suffolk County communities of Chelsea, Winthrop and Revere, but state law ensures that more local funding must be used to support Suffolk County government than most other counties.

Expenditure Overview

Mayor Menino's FY95 Proposed Budget funds a 3.1 percent increase in fixed costs—pensions, debt service, and state assessments—due primarily to a 6.4 percent increase in pension contributions. The Budget supports a 3.5 percent increase in City appropriations, an 8.2 percent increase in the Department of Health and Hospitals, matched by a corresponding increase in DH&H revenues, and the state-mandated 2.5 percent increase in County funding.

The majority of departmental appropriations reflect a less than 3.5 percent increase over FY94 levels. Community Centers, Police, and Health and Hospitals are departments with significantly greater increases. The City's aggressive efforts to control employee health insurance costs have allowed for level funding of this $72 million appropriation in FY95.

Funding for the Boston Public Schools is reflected in several ways. In addition to the recommended $404.96 million appropriation, the Budget reserves $4 million to offset potential costs from increased enrollments. Moreover, a supplemental appropriation will further increase FY95 School Department spending, when collective bargaining contracts are concluded with School Department employees.

New Management Strategies

Cabinets To Streamline Operations. This FY95 Proposed Operating Budget is both an affirmation of Mayor Menino's new structure for municipal government, and an outline of changes, consolidations, and restructuring yet to come. As outlined in "*Transition*," this FY95 Budget establishes the Mayor's new cabinet structure by consolidating City departments and expenditures into eight substantive areas: Mayor's Offices, Operations, Education, Public Safety, Basic Services, Economic Development, Health and Human Services, and Financial Operations.

Within this structure, there are new and refocused departments such as the Office of Civil Rights, the Office of Special Events and Tourism, and the new Management and Information Services, and Property Management Departments.

The new structure also includes the Boston Housing Authority, the Boston Redevelopment Authority, the Economic Development Industrialization Corporation, and the Boston Water and Sewer Commission within a framework that will encourage better cross-agency and authority coordination. Individuals and businesses should not be required to have a detailed understanding of apparently overlapping administrative structures in order to get their problems addressed.

Basic Management Goals. This Budget reflects four key management objectives of the new Administration. First, the budget process has been used to establish specific performance objectives for both cabinets and individual departments. This new attention to challenging perfor-

This FY95 Proposed Budget both affirms Mayor Menino's new structure for municipal government, and outlines changes, consolidations, and restructuring yet to come.

Uniformed police strength will increase from 1,920 today to an estimated 2,030 by June of 1995, a nearly 6 percent increase.

mance commitments sets forth a clear standard for accountability that focuses not on inputs (how many dollars are spent and how many employees are hired), but on results that are meaningful to the public.

Second, customer satisfaction will be a fundamental measure of service delivery success. Throughout this Budget there is a new commitment to accountability measured by actual satisfaction with City service delivery. The revamped Management and Information Services Department will be responsible for developing, coordinating and reporting customer ratings.

Third, cross-department cooperation is essential to improving service delivery. The new cabinet structure supports this goal, but the ultimate measure of success is not a new organization chart. The product will be new, more rational service delivery systems both within and between administrative units. The transfer of various functions between the Property Management and Public Facilities Departments, for example, provides for a more rational organization for maintaining and protecting municipal facilities and fostering development of various City-owned properties.

Fourth, Mayor Menino is committed to ensuring that the City work force is not only responsive and responsible, but that its composition reflects the City's population. The Affirmative Action Program in the new Human Resources Department will be the vehicle for assuring that this goal is achieved.

New Focus on External Funds. This FY95 Proposed Budget document demonstrates a new effort to focus all available resources to provide City services. The Budget summarizes in one place all funds available and devoted to carrying out a department's mission. Given the City's limited ability to increase General Fund revenues, departments will be aggressively seeking out new state and federal grants to enhance program operations. This focus is reflected in the new Grants Development Program in the Intergovernmental Relations Department and the new investment in training and technical assistance to departmental staff to expand externally funded resources.

In addition, management of several externally funded grant programs will be consolidated within the Office of Safe Neighborhoods. These include the Healthy Boston Program and Boston Against Drugs. By coordinating these programs with the Safe Neighborhoods grants, the City will be better able to focus grants and services on high priority needs.

FY95 Budget Highlights

Within each cabinet area, funding has been targeted to support priority initiatives that will provide more effective and efficiently delivered City services.

Public Safety. Providing a safe environment for Boston's citizens, labor force, and visitors is a central responsibility of City government. This Budget provides for three classes of new police officers to begin the move toward staff levels adequate to fully support Mayor Menino's commitment to community policing. These classes mean that uniformed strength will increase from 1,920 today to an estimated 2,030 by June of 1995, a nearly 6 percent increase. Based on current revenue projections, it is expected that the Department will be able to plan for similar increases in uniformed strength for the next several fiscal years.

In addition to increased staffing, the Police Department will, over the next six months, be preparing a five year plan to use advanced technologies to improve operating efficiencies. This plan will identify and prioritize automation needs, include implementation and training timetables, and assess capital and/or operating budget financing strategies. Implementation of this plan is critical to the long-run effectiveness of Boston's Police Department. Efforts to secure new federal funds for additional police officers continue.

This Proposed Budget will provide for a new class of 58 firefighters in July, the first new class in 13 months. This additional staffing will halt the drop in uni-

formed staff levels which the Department has been dealing with for several years. The new class will increase uniform strength to an estimated 1,541 by June of 1995, thus providing for essentially level staffing throughout FY95. This staffing will support the Department's goal of responding to 94 percent of calls in less than 3 minutes.

Funds are included to support the comprehensive Fire Department audit recommended in the Mayor's Transition Report. This audit, which is expected to be completed by about mid-year, will review all aspects of Fire Department response and prevention operations, with the objective of outlining the management and operational needs of the Department into the next century.

Basic Services. Boston will take a major step forward in expanding recycling services in FY95. This Proposed Budget includes a 58 percent increase in the recycling budget. The City will increase the number of neighborhoods that are serviced by the "blue boxes" for bottles and cans where appropriate, establish additional permanent recycling centers to complement the curbside service, and increase the frequency and predictability of newspaper collections. For the first time, there will be City-wide seasonal collections of leaves and yard waste for composting. There will be more technical support to increase neighborhood involvement and participation. Linkages to the Office of the Chief Economic Development Officer will help encourage the growth of fledgling industries in the recycling business, and there will be an effort to involve the City in more source reduction. This new investment will put the City on a course toward full-scale recycling by the turn of the century.

In addition to an expanded recycling effort, the FY95 Budget provides Public Works Department funding for vehicle replacement and new equipment for graffiti removal, and increased resources for mechanical and hand street cleaning, temporary street repairs, and other basic public works functions. Both arterial and neighborhood sweeping routes will be expanded. During the upcoming year, the City will also explore new ways of delivering these services more effectively. Consistent with the Transition team recommendations, the City will consider managed competition models which incorporate some level of competition between public and private work forces. The end result of a properly managed process is anticipated to be an improvement in quality, possibly (although not always) at less cost.

Consolidating responsibility for maintenance, alteration, repair, and security of municipal buildings within the Basic Services Cabinet in the new Property Management Department will allow for more efficient delivery of these services. This Budget also increases funding for preventive maintenance for municipal HVAC systems in order to protect the City's capital investment in this equipment.

During the upcoming year the Basic Services Cabinet will explore additional ways of consolidating or reassigning responsibility for maintenance of City open space, buildings, public ways, and equipment to assure the highest quality service delivery within a competitive cost framework. Examples of maintenance goals for Basic Services departments for FY95 include reporting total miles of roadways needing repairs that are actually repaired; reducing streetlight outage complaints by 20 percent; ensuring that 90 percent of parks and playgrounds meet 90 percent of inspection standards for safety, cleanliness, and maintenance; and reducing travel time at major intersections by 5 percent.

Services to Boston's young people are included within several cabinets under the general oversight of the Mayor's Youth Advisor. The Youth Fund which provides summer jobs for young people is included in the Basic Services Cabinet because the results of this work supports the maintenance responsibilities of this Cabinet. This FY95 Budget includes a 5 percent expansion of these "red shirt" jobs for youth aged 14 to 17 in FY95.

The Boston Public Library will also focus attention on services to youth. The Library will be providing dedicated dial-up access between the Library's computer-

Boston will take a major step forward in expanding recycling services in FY95.

Fourteen Community Centers throughout the City will now be open for eight hours every Saturday and will be open from 9pm to 1am on Friday nights in July and August.

ized catalogues and the Public Schools. The Library has also pledged to increase by 2 percent the number of children registered for Library cards and using those cards.

Funds are included in the FY95 Budget to expand hours at four branch libraries and at the main library so that young people in particular will have greater access to Boston's library system.

Education. The FY95 Proposed Budget incorporates a new presentation on the Boston Public Schools. This new section includes not only expenditure and budget information, but also specific performance goals for the coming year. This new format reflects both Mayor Menino's attention to Boston's school children, and also his intention to hold the Boston School Committee accountable for improvement in Boston's schools.

The Mayor's recommended appropriation of $404.96 million represents an estimated $4.4 million increase over the FY94 appropriation (after accounting for the one-time FY94 expenses and the City's direct appropriation to Community Centers for alternative education programs). In addition to the recommended $404.96 million appropriation, the FY95 Budget sets aside an additional $4 million as a reserve against added costs for expanded enrollments. This new policy recognizes the unfair burden that the School Department has carried in the past when its recommended appropriation did not account for the somewhat unpredictable new costs associated with increased numbers of students. Finally, since collective bargaining contracts with School Department employees have not been concluded for FY95, and since the City anticipates direct funding of these costs under the provisions of MGLA c. 150E, the final School Department appropriation for FY95 will reflect a significant increase over FY94.

Health and Human Services. Thirty-six percent of total FY95 City appropriations support the Boston Public Schools. In addition, services to young people are a priority within the Health and Human Services Cabinet. For the first time in three years, Boston Community Centers will be fully staffed in all neighborhoods. This will allow Boston residents more access to recreational, educational, and enrichment programs on a year-round basis. The FY95 Proposed Budget also restores cuts made by the City-wide Board to the Camp Joy program and the Boston Neighborhood Basketball League.

In addition, this Proposed Budget expands Community Center operating hours. Fourteen Community Centers throughout the City will now be open for eight hours every Saturdays and will be open from 9pm to 1am on Friday nights in July and August. This new funding will provide young people with a safe environment for sports and other recreational activities during these expanded hours.

The Department of Health and Hospitals appropriation will fund an expansion of Emergency Room and ambulance services in FY95. This will include increased staff to reduce waiting time in the BCH Emergency Room, and, if demand warrants, the addition of two Basic and one Advanced Life Support System ambulances and an added eight hour tour to existing BLS and ALS units by the end of FY95.

The Emergency Shelter Commission will hire full-time staff to coordinate support for public and private food programs. The Emergency Shelter Commission will also provide financial support to farmers' markets and food pantries, and a summer feeding program for children.

Economic Development. The Economic Development Cabinet is responsible for planning, economic development, and housing activities to enhance Boston as a place to live and work.

One of Boston's biggest natural assets is its Harbor. This FY95 Budget is accompanied by the pledge of a $500,000 capital challenge grant to match funds provided by the Commonwealth and the private sector to implement the recommendations of the Joint City and State Commission on the Future of Boston's Beaches. The design and engineering studies to support these recommendations will be the first step to recognizing and building

on Boston's historic relationship with its Harbor and enhancing the natural advantage of Boston's seaside location.

Mayor Menino has charged the Economic Development Cabinet to create a proactive approach to developing and supporting economic activity in Boston. The new Office of Business Services within EDIC responds to this charge. To complement efforts to attract new businesses, the restructured Office of Special Events and Tourism will develop marketing strategies and provide advertising to increase tourism to Boston. The Office will also establish a City Store on the third floor of City Hall, inviting visitors into the Hall to purchase souvenirs that will carry Boston's image home with them.

Mayor Menino has directed the Chief of Economic Development to refocus the Boston Redevelopment Authority on its responsibility as the City's economic development and planning agency. Over the next several months she will prepare a plan for consolidating and streamlining this work as a key BRA acitvity. Of immediate priority is the resolution of serious BRA funding issues and redefining the roles and service relationships of the BRA, EDIC, PFD, and the City of Boston.

To improve the efficiency with which the City's regulates housing, construction, and zoning matters, the Budget includes funding for automating Inspectional Services record-keeping and management systems. Providing appropriate regulation in an efficient manner will help to strengthen Boston as a place to live and work.

Chief Financial Officer (CFO). This Proposed Budget provides for the consolidation of the operating and capital budget offices into a single Office of Budget Management, to encourage closer links between capital and operating plans. The Capital Budget has funded or will fund assessments of school, fire, and public health care facility needs. With careful coordination, these capital investments can facilitate improved service delivery and efficiency, thus reducing demands on the operating budget.

This Budget supports several new efforts to increase revenues. A new affirmative litigation unit is funded in the Law Department to allow the City to recover damages when insured individuals destroy City property. This $130,000 investment is expected to return at least twice that amount in reimbursements in its first year of operation.

The CFO will also encourage other innovative approaches to revenue collection. Several years ago the City established a fee system so that renters who benefited from the work of the Rent Equity Board would support the cost of the Board's operations. The CFO will take the lead in improving collection of these fees to at no additional cost to the City.

Office of the Chief Operating Officer. With the support of the members of the Cabinet, the Chief Operating Officer (COO) is responsible for the daily management of City operations. Reporting directly to the COO will be a restructured Management and Information Services Department (M&IS) that will coordinate collection and analysis of information necessary to effectively manage City government. A new Management Office Program within M&IS will oversee management information reporting and analysis, assist departments in improving reporting systems, coordinate customer satisfaction surveys, and undertake other special management projects. Consistent with recommendations of the Transition Report, the M&IS Department is funded to develop a strategic plan for technological innovation so that the City can take advantage of the efficiencies inherent in new automation and telecommunications technologies.

Other management initiatives planned for FY95 include a contingency contract to recover overpayments of past utility bills, an assessment of benefits from using contracted services to manage portions of the City's workers' compensation activities, recommendations on how to reduce energy use and costs, a plan for consolidating much of the City's legal resources within the Law Department, and implementing the Transition recommendation to review ratios of supervisors

The M&IS Department will develop a strategic plan for technological innovation to take advantage of new automation and telecommunications technologies.

to managers to ensure the most efficient organizational structure for the City's work force.

The Department of Health and Hospitals is included within the responsibilities of the Chief Operating Officer to reflect the attention that will be devoted to the transformation of the Department into a more independent entity. The COO will be directly responsible for this effort. Meanwhile, the public health services provided by the DH&H will be coordinated through the Health and Human Services Cabinet.

How to Read the Budget

This Proposed Budget is presented in three volumes. Volume I provides an overview of the entire budget and the City's financial condition, including the budget summary, analysis and estimates of all revenue accounts, and a description of the City's financial management systems.

Volumes II and III present detailed information by cabinet on each City department. Volume II includes the Mayor's Office, and the Chief Operating Officer, Public Safety, and Basic Services Cabinet. Volume III covers the Chief Financial Officer, Health and Human Services, and Education Cabinets.

All General Fund, grants and other external funds, department-related capital spending, and FY95 goals are shown by department. Capital funds expenditures are shown as they appear within the Capital Planning Officers account system.

Selected service indicator charts display five years of expenditures and staff and performance levels and FY95 projections for key services. Department and division level charts show actual numbers of full-time employees as of June 30th of completed fiscal years. They also show the total actual expenditures for past years, and a sample of the service indicators reflected in the programs. The FY94 and FY95 indicators are as budgeted for personnel and expenditures, with the service levels projected for FY94 and anticipated for FY95 based on experience through December of 1993. Program level charts show budgeted levels of personnel, actual program expenditures, and historical levels of workload and productivity.

Personnel detail and General Fund spending history by line item are shown at the department level, as are external funds totals. Short descriptions of all external grants are also included.

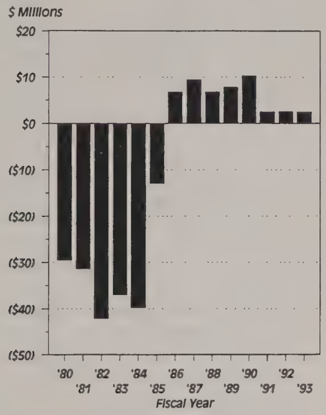
Summary Budget

SUMMARY BUDGET

The Proposed FY95 *Budget of* $1,396 *million represents a* 3.2% *increase over* FY94 *spending.*

The Proposed FY95 Budget of $1,396.4 million represents $43 million increase (3.2%) over FY94 spending. The FY95 Budget will be the City's tenth consecutive balanced budget. (See Figure 1.) As has been the case for several years, the most significant revenue increase is in the property tax levy. Hospital receipts and state aid distributions also show some increase. Total departmental appropriations increase by 3.2%, while fixed costs increase by 3.1%.

This Summary Budget begins with overviews of FY94, the current fiscal year, and FY95, the proposed budget for the upcoming fiscal year, followed by a brief description of each line item in the summary budget.



Surpluses And Deficits

Figure 1

Overview Fiscal Year 1994

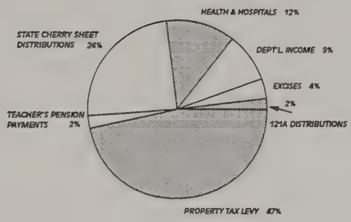
Total planned FY94 expenditures increased by $50.9 million or 3.9% following two straight years of decrease. In spite of the increase, the total spending level remains less than FY91 spending as the City is still far from recovering from the prior years' local aid reductions. A $34.5 million increase in the net property tax levy and $20.5 million increase in local aid are partially offset by decreases in other revenue line items. (Actually, two-thirds of the local aid increase is an accounting change between special fund and general fund required by the state.) As in FY93, the City does not expect to be in a position to appropriate from budgetary fund balance. Departmental expenditures are able to be increased in FY94 by $61 million because, in addition to an increase of $48 million in revenue, the City was able to budget 4% less in fixed costs. This was driven by the favorable outcome of a pension system valuation which reduced annual funding by $11.5 million. The FY94 costs have included pay raises for members of most major unions. The most notable exception are City's public safety unions where deliberations are proceeding under the statutory mediation/arbitration process.

Overview Fiscal Year 1995

Total planned FY95 departmental and fixed cost expenditures will increase by 3.2% to $1.4 billion, or $43 million. On the revenue side, for the first time in several years nearly all the major revenue items will be increasing, led once again by the net property tax levy with a $25.6 million increase. Other major increases are $16.3 million or 10% in hospital receipts and $9.8 million or 3% in local aid distributions. In one sense the increased estimate for hospital receipts is budget neutral because a similar increase in the FY95 planned Health and Hospitals budget maintains the City subsidy at approximately the same level as is budgeted in FY94. The property tax levy continues to be the major source of growth in the City's revenues, allowing the City in FY95 to afford modest collective bargaining increases as well as to add some public safety personnel during the course of the year. However, as is discussed in more detail below there is the risk that a future downturn in the real estate market could limit this mainstay of the City's revenue growth. Following is a description summary of each line item in the summary budget. In a more complete analysis of City revenues, see chapter *Revenue Estimates and Analysis*.

Revenues

Property Tax Levy. The property tax levy has been the City's most dependable source of major revenue growth during the past ten years. In FY95 the net property tax levy will provide 47% of all City revenue. (See Figure 2.) The increases have been steady and consistent from FY85 to FY94, ranging from $28 million to $41 million. Its future growth—as explained in more detail below—may be in question.



Estimated Revenue FY95

Figure 2

In each year since FY85 the City increased its levy by the allowable 2.5%. During these same years, the levy has also been positively impacted by taxable new value especially from new construction. This has added to the tax base. The combined effect of the allowable 2.5% increase and taxable new value, has been an average annual levy increase from FY91 through FY94 of 6.1%, and a projected increase in FY95 of 3.9%.

From FY85 through FY89 assessed property values in Boston increased dramatically, far outpacing the capped growth in the levy. Consequently, there was a significant downward trend in the property tax rates. The City's net effective tax rate in FY84 was 2.5%; by FY89 the net effective tax rate had fallen to 1.4%.

What occurred in the Boston real estate market, beginning in 1988, significantly reversed the FY85-FY89 tax rate trends. As the New England region experienced a deep recession, activity in both the commercial and residential markets slowed dramatically. This was reflected in the fourth City-wide revaluation, establishing values as of January 1, 1991 at $29.8 billion, an 18% decline from the prior year's total taxable value. This was followed with an 8.4% trending down for January 1, 1992 values at $27.3 billion.

As values remained level and subsequently decreased, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY94 the levy increased each year by an annual average of 6.4%. The dramatic decrease in values reversed the previous tax rate trend: From FY82 to FY89 the tax rate had decreased every year due to values increasing faster than the levy; from FY90 to FY94 the tax rate rapidly increased.

As of FY94, the net effective tax rate stood close to the Proposition 2 1/2 ceiling at 2.47%. It is the highest municipal property tax rate in Massachusetts. Should the direction of the real estate market, which currently is modestly positive, suddenly reverse again, then the City's current position at the 2.5% tax rate threshold has significant implications for the future ability of the City to maintain the current level of services.

Motor Vehicle Excise. The City's motor vehicle excise receipts remained relatively stable in FY90, FY91, and FY92 at $20 million, $18.9 million, and $18.9 million. In FY93 the City's motor vehicle excise receipts surged dramatically upward to $30.1 million due to an aggressive program to collect past due accounts and a delay in issuance of bills in FY92. The City's motor vehicle excise revenue in FY94 is projected to return to its normal pace at $20.5 million. As employment growth and consumer confidence have finally revisited New England more people have returned to the market for new car

purchases. The local economic recovery and consequent increase in new car purchases is the underpinning for the FY95 increased projection of $21.5 million.

Room-occupancy Excise. The room-occupancy excise amounts to 4% of the total amount of rent for each occupancy. The growth of this revenue source has mirrored the economy: there was modest growth during FY90-FY91, a major decrease in FY92, and recovery in FY93. The City projected for FY94 $14.1 million in room-occupancy receipts in its revised projections last December. The improved economic outlook is the underlying assumption for the projected increase up to $15 million for FY95.

Jet Fuel Excise. The excise on the sale of jet fuel is at a rate of 5% of the average sales price, but not less than 5 cents per gallon. The 5 cent per gallon "floor" and airline efforts to improve fuel economy tend to limit jet fuel excise growth.

In FY90 and FY91, jet-fuel excise receipts totalled $13.2 million and $13.3 million. In FY92 and FY93 jet-fuel receipts fell to $11.6 million and $11.4 million. Tourist and business travel to the region declined during the recent economic slowdown, contributing to the decreases for both the jet-fuel and room-occupancy excises. Due to improvement in the economy, FY94 receipts are running ahead of the same year-to-date FY93 level. The City now expects this revenue source to come in above the $11.4 million projected in December for FY94 and has budgeted $12.5 million for FY95.

Departmental Revenues. Departmental revenues consist of approximately 120 miscellaneous accounts including such diverse revenue sources as health inspection fees, cemetery fees, parking fines, and interest income. In FY95 the City projects it will bring in $120.9 million in departmental revenues, 6% under the amount projected in the FY94 revised estimates. For the first time since FY84, departmental revenue accounts for less than 10% of total General Fund revenues (in both FY94 and FY95).

Economic activity is a determinant for many departmental revenue accounts including interest income, building permit fees, and parking fines. Together, these three sources, plus payment-in-lieu-of-taxes, represent between 62% and 67% of departmental revenues in the FY91 through FY95 budgets, and are described in more detail in the chapter *Revenue Estimates and Analysis*.

Hospital Income. The City currently operates Boston City Hospital (BCH), a 356 bed acute-care hospital and Boston Specialty and Rehabilitation Hospital (BSRH), a chronic care facility. Currently, BCH accounts for well over 90% of the City's hospital reimbursements.

The largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care from statewide free care pool. Chapter 495 of the Acts of 1991, the most recent legislation governing statewide health-care reimbursement, converted the uncompensated care pool to a free care pool by eliminating payments to hospitals for bad debts. This allowed BCH to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as "bad debts."

The second largest form of payment is Medicaid. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due to the nature of Boston City Hospital's patient population.

In FY91, FY92 and FY93 the City recorded reimbursements from the hospitals totaling $179.9 million, $168.2 million and $154.8 million. The City revised its accounting policy to a more explicit accrual basis that allowed late payments for services rendered prior to the end of FY92 to be credited to FY92. In FY93 the City again implemented an explicit accrual basis for crediting hospital receipts. Due to the state finally fully implementing Chapter 495, Boston City Hospital's reimbursement stream has been stronger during FY94. The City is projecting $163.4 million and $179.7 million in hospital receipts for FY94 and FY95. The increase in

FY95 includes increased receipts from specific initiatives budgeted for in FY95.

State Distributions. Since FY82 there have been three distinct phases in state local aid funding policy. From FY82-FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2. A reasonable annual increase in local aid became an essential component in the financial planning for Massachusetts municipalities offsetting what would otherwise have been an ongoing deterioration of municipal services as a consequence of Proposition 2 1/2. Boston's experience was typical: Local aid represented 20% of all General Fund revenue in FY81. By FY89, it had increased to represent 32%.

The second phase occurred during the FY90, FY91 and FY92 budgets when the governor and the legislature significantly reduced state revenue sharing with cities, towns, and regional schools. Between FY89 and FY92, state-wide "cherry sheet" aid declined $602 million or 20% while all other state spending increased by $1.5 billion or 15%.

In the third and most recent phase, which began with passage of the FY93 state budget, the state embarked upon a multi-year commitment to increase and equalize funding for local education. While the increase in education funding was certainly preferable to the reductions of the FY90-FY92 period, it leaves municipalities in a quandary as to how to maintain other basic municipal services at a reasonable level.

In the final analysis, in spite of some proposed modest improvements in other areas of local aid, the recent emphasis on educational funding over general revenue sharing is a severe handicap for Boston's ability to deliver adequate services. Boston received approximately $7.3 million in new educational aid in FY94. This compares poorly with resolution aid increases in the FY82-FY89 period which averaged over $20 million.

Chapter 121A Distributions. The Chapter 121A legislation allows local governments to suspend the imposition of property taxes at their normal levels in order to encourage redevelopment. The City most recently used this mechanism to encourage development to go forward for a new Boston Garden and for a new Genzyme manufacturing plant in Allston.

Chapter 121A receipts reflect the reduced tax revenue from 121A properties in this program not paying normal taxes. In FY92 the City collected Chapter 121A, section 10 distributions of $32.2 million. In FY93 the amount declined to $27.6 million due to the Prudential Center development switching from Chapter 121A classification to normal Chapter 59 property taxation. This decline was more than compensated for in FY93 by the amount Prudential paid in property taxes. In FY94 and FY95, Chapter 121A revenues are forecast to come in at $23.7 million and $25.9 million.

Teachers Pension Payments. Boston's cherry sheet includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System.

After remaining in the $20 million to $23 million range from FY84 to FY90, the reimbursement increased to $26 million in FY91, $26.4 million in FY92, $27.2 million in FY93 and $28.2 million in FY94. Due to the early retirement incentive program for 250 teachers last summer, the FY95 reimbursement is expected to jump to exceed $30 million for the first time.

Budgetary Fund Balance. Budgetary fund balance, also referred to as "free cash," is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. By balancing expenditure reductions with drawing down of available reserves, the City was able to mitigate reductions in basic services during the state's dramatic reductions of local aid. However, due to a number of factors discussed in more detail in

the chapter *Revenue Estimates and Analysis* the City's free cash position is currently negative. The City does not currently anticipate being able to appropriate additional funds from the budgetary fund balance in the near future.

Non-Recurring Revenue. Following a three year hiatus of the use of non-recurring revenue to support the operating budget, the Administration's FY92, FY93, and FY94 budgets were supported by $12 million, $1.8 million, and $9.3 million in sale of property receipts. All but $2 million in FY92 will have been proceeds from the sale of land related to the Central Artery project. As a matter of prudent fiscal management, it has been the Administration's policy to spread the incorporation of Central Artery sale proceeds into General Fund revenue over several years in order to minimize any resulting structural gap between the City's recurring revenues and expenditures.

Expenditures

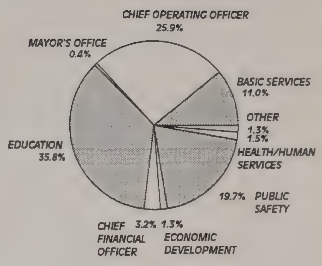
Appropriations in FY95 exceed the previous FY91 peak by 2.5% following three years of remaining well below the FY91 peak. This cost containment has been driven largely by reductions in personnel, limited collective bargaining increases and reduced cost in garbage removal. See Table 1.

Changes in City Personnel (FTEs as of January 1)	1984	1989	1991	1993	1994
City	11,686	12,156	11,624	10,518	10,204
County	613	491	641	955	340
Schools	6,286	7,247	7,007	6,536	6,698
Total	18,585	19,894	19,272	18,009	17,242

Table 1

In this Proposed Budget city expenditures, including the School Department and Health & Hospitals, are consolidated and presented in eight cabinet areas. (Figure 3.)

City Departments. Table 2 datails FY94 and FY95 appropriations for all City departments and the Department of Health and Hospitals as shown on the Summary



FY95 Expenditures by Cabinet

Figure 3

Budget. Approximately 70% of the Summary Budget's "City Department" expenditures come from four areas: Police, Fire, Public Works and Health Benefits. Since FY89 the City has seen a slight reduction of public safety personnel, while other departments have seen more dramatic reductions. In the FY94 and FY95 budgets there is sufficient funding to increase the number of police officers back to the levels that existed before local aid cuts began in FY90.

The cost of Health Benefits has increased steadily since FY89, going from $39.6 million in FY89 to $71.8 million in FY94. More recently, the City has addressed the issue of health benefit cost escalation with some results: the FY95 expenditures are estimated to remain level with the FY94 appropriation. The Public Works Department has dramatically decreased personnel since FY89 (from 615 in January, 1989 to 473 in January, 1994) and also significantly reduced nonpersonal costs by approximately 14% due largely to the reduced cost of garbage removal.

Health & Hospitals. The Department of Health and Hospitals FY94 budget exceeds the previous FY91 peak (before the closure of Long Island Hospital) by just

Appropriations by Cabinet		Approp FY94	Recom FY95	Variance
Office of the Mayor	Intergovernmental Relations	653,300	744,269	90,969
	Law Department	3,118,100	3,331,850	213,750
	Mayor, Office Expenses	1,117,500	1,251,442	133,942
	Press Office	152,500	188,560	36,060
	Total	5,041,400	5,516,121	474,721
Chief Operating Officer	Office of Chief Operating Office	0	305,720	305,720
	Human Resources	72,875,000	72,901,200	26,200
	Management and Information	5,574,500	6,500,678	926,178
	Printing Division	1,274,400	1,319,400	45,000
	Purchasing Division	825,800	841,589	15,789
	Health and Hospitals Depart	197,163,000	213,385,500	16,222,500
	Management Fund	210,000	210,000	0
	Unemployment Comp.	50,000	50,000	0
	Total	277,972,700	295,514,087	17,541,387
Basic City Services	Consumer Affairs/Licensing	300,700	320,700	20,000
	Election Department	3,046,000	2,820,800	(225,200)
	Library Department	18,926,303	19,400,000	473,697
	Parks and Recreation	9,895,554	10,156,554	261,000
	Public Works Department	51,323,000	52,662,900	1,339,900
	Property Mgmt	9,551,142	10,125,761	574,619
	Registry Division	621,600	658,400	36,800
	Snow Removal	2,250,000	3,250,000	1,000,000
	Transportation Department	23,550,400	22,466,900	(1,083,500)
	Youth Fund	3,800,000	3,400,000	(400,000)
	Total	123,264,699	125,262,015	1,997,316
Chief Financial Officer	Office Budget Management	2,250,115	2,076,041	(174,074)
	Office of Labor Relations	420,100	447,800	27,700
	Workers Comp. Service	403,800	511,400	107,600
	Assessing Department	4,724,000	4,821,250	97,250
	Auditing Department	1,314,100	1,339,230	25,130
	Execution of Courts	7,500,000	8,500,000	1,000,000
	Medicare City/County	1,550,000	1,750,000	200,000
	Pensions - City	7,200,000	7,200,000	0
	Retirement Board	1,081,200	1,123,800	42,600
	Treasury Department	2,374,400	2,504,182	129,782
	Workers Comp Fund	3,200,000	3,800,000	600,000
	Pensions - County	600,000	600,000	0
	Total	32,617,715	34,673,703	2,055,988
Economic Development	Minority/Womens Business	351,600	218,175	(133,425)
	Environment Department	340,446	463,475	123,029
	Inspectional Services Dept	8,378,000	8,310,000	(68,000)
	Public Facilities Department	3,750,743	3,349,603	(401,140)
	Rent Equity Board	1,200,200	1,222,190	21,990
	Tourism and Special Events	968,800	902,100	(66,700)
	Total	14,989,789	14,465,543	(524,246)
Public Safety	Fire Department	83,833,000	86,345,097	2,512,097
	Police Department	131,810,000	139,123,500	7,313,500
	Total	215,643,000	225,468,597	9,825,597
Health & Human Services	Civil Rights - Office of	539,500	556,400	16,900
	Cultural Affairs	146,800	203,813	57,013
	Elderly Commission	1,741,600	1,767,600	26,000
	Emergency Shelter Commission	326,000	332,179	6,179
	Neighborhood Services	897,900	1,001,900	104,000
	PFD/Community Centers	8,625,400	9,765,400	1,140,000
	Safe Neighborhoods	325,300	544,968	219,668
	Veterans Services Dept	2,413,100	2,425,900	12,800
	Women's Commission	101,000	105,125	4,125
	Total	15,116,600	16,703,285	1,586,685
Other	City Clerk Dept	557,600	567,940	10,340
	City Council	2,470,670	2,570,670	100,000
	Finance Commission	127,900	140,760	12,860
	Licensing Board	423,600	431,000	7,400
	Registry of Deeds	1,527,800	1,566,000	38,200
	Sheriff's Department	8,938,038	9,161,489	223,451
	Total	14,045,608	14,437,859	392,251

Table 2

1.4% after two years of spending reductions. This relative cost containment has been driven largely by reductions in personnel. There were approximately 1,100 fewer employees in January, 1994 than in January, 1989, a 30% decrease. In general, the main operation of the Department, BCH, has felt the pressure of a more competitive health services environment, requiring it to deliver services without additional subsidies which the City can not afford. To date, Boston City Hospital has managed in this environment better than had been projected in some studies. The FY95 Department of Health and Hospital budget aims to maintain the same City subsidy as was provided in the FY94 budget. Thus, the increase in the budget for FY95 of $16.2 million is based in large part upon realistic projections of revenue increases for FY95.

County Departments. Suffolk County government is composed of the Sheriff's Department and the Registry of Deeds. Since FY93 the majority of the Sheriff's Department's budget has been funded by the Commonwealth, but the City is mandated to increase its County support by 2.5% each year. The Commonwealth has been ambiguous in enforcing this maintenance of effort requirement consistently throughout the state, requiring this increase from Boston in FY94 while covering the cost for some other counties.

School Department. Funds recommended for the Boston School Department for FY95 include two components; a recommended $404.96 million appropriation and a $4 million reserve to support additional costs due to increased enrollments. The mayor will recommend appropriate transfers from the reserve to the School Department as soon as enrollment information becomes available. Futhermore, the current collective bargaining agreement with the Boston Teachers Union does not extend beyond FY94. Should pay adjustments be agreed upon subsequent to the publishing of this budget, the Mayor will recommend a supplemental appropriation to cover this additional cost.

The School budget increased by $33 million between FY93 and FY94 due partially to redesignation by the Commonwealth of $14 million in grant funds as general funds subject to appropriation. During the last year and for the foreseeable future, school budget issues will be driven largely by the new Education Reform law. The recent approval of several charter schools in Boston may become a costly budget item in FY96 if not earlier.

Pensions. The City's pension expense has remained stable over the last several years while the percentage by which the overall liability has been funded has continued to improve. The amount budgeted in FY95 of $106.9 million nearly matches the FY92 amount of $106.3 million. The reasons for this are several. First, pension reform laws of the 1980's increased the percent set aside for pension funding out of new employees' checks from 6% to 8% to greater than 8%. Over time, this has come to improve the City's funding position. Second, the average annual rate of return on assets (over 11% for the period covering 1985 through 1993) has significantly exceeded the 8% rate of return assumed in the pension funding schedule. Third, several difficult budget years either reduced the City payroll or allowed it to grow slower than had been assumed in the pension funding schedule. These last two items, often called "actuarial gains," are incorporated into the City's pension funding schedule each time the pension system does a full valuation. The most recent valuation was approved during FY94. State law requires another full revaluation in time to adjust the pension funding schedule for FY97 forward.

Debt Service. The level of expenditure for debt service in the budgets from FY90 through this proposed FY95 budget has remained relatively stable, staying within an $82 million to $89 million range. Debt has tended to decrease as a percentage of the total budget, going from the 7%-9% range to under 7% the last several budgets. The City has been particularly resourceful in managing its debt. It made maximum use of the recent period of historically low interest rates with two major refinancings. During the recent difficult budgets in which revenues decreased and personnel was reduced, the City exer-

cised some restraint in its capital spending and also made use of more flexible debt structure to even out its future debt payment schedule. In general, however, the City has maintained a conservative overall debt retirement schedule, and debt-to-budget and debt-to-assessed value ratios.

State Assessments. Accompanying the local aid distributions on the cherry sheet are several charges to the City from the state. All but the state assessment for the Massachusetts Bay Transit Authority (MBTA) are relatively small. In accordance with Proposition 2 1/2, these charges, on a statewide basis, cannot increase annually by more than 2.5%. Consequently, the City's state assessment has grown slowly from $50.3 million in FY90 to an estimated $58.4 million in FY95. The MBTA costs have traditionally grown at a much faster pace and consequently so has the state's annual subsidy to the MBTA.

Reserve. The City is required by law to maintain a reserve on its balance sheet of 2.5% of the prior year appropriations (not including the School Department which has its own separate reserve) to be used to provide for extraordinary and unforeseen expenditures. The current balance of this reserve is $17.925 million. The City has not had to make any allocations to this reserve since FY91, partly because of stringent decreases in subsequent years in appropriations. Since the establishment of this reserve, the City has yet to make any drafts or transfers from the reserve.

CITY OF BOSTON BUDGET SUMMARY
Dollars in Millions

	FY90 Actual	FY91 Actual	FY92 Actual	FY93 Actual	FY94 Budget	FY95 Budget
REVENUES						
PROPERTY TAX LEVY	520.9	555.6	583.3	624.7	660.24	685.75
OVERLAY RESERVE	(26.0)	(26.4)	(27.8)	(34.0)	(35.04)	(34.90)
MOTOR VEHICLE EXCISE	20.0	18.9	18.9	30.1	20.52	21.52
ROOM OCCUPANCY EXCISE	13.9	14.7	12.9	14.1	14.10	15.00
JET FUEL EXCISE	13.2	13.3	11.6	11.4	11.40	12.50
DEPARTMENTAL INCOME	161.3	147.6	146.9	139.1	128.61	120.89
HEALTH AND HOSPITALS	158.0	179.9	168.2	154.8	163.38	179.69
STATE AID DISTRIBUTIONS	407.4	369.9	328.6	308.4	328.93	338.70
121A DISTRIBUTIONS	33.0	30.1	32.2	27.6	23.70	25.90
TEACHERS PENSION PAYMENTS	23.0	26.0	26.4	27.2	28.22	30.50
BUDGETARY FUND BALANCE	20.0	38.6	10.9	0.0	0.00	0.00
TOTAL RECURRING REVENUE	1,344.6	1,368.0	1,312.2	1,303.3	1,344.06	1,395.55
NON-RECURRING REVENUE	0.0	0.0	12.0	1.8	9.32	0.80
TOTAL REVENUES	1,344.6	1,368.0	1,324.2	1,305.0	1,353.38	1,396.35
EXPENDITURES						
CITY DEPARTMENTS	495.3	497.3	475.8	474.7	487.88	504.76
HEALTH & HOSPITALS	186.8	194.4	183.0	182.8	197.16	213.39
COUNTY DEPARTMENTS	29.0	34.0	36.0	14.8	15.21	15.60
SCHOOL DEPARTMENT	374.4	389.0	382.0	374.0	407.00	408.96
TOTAL APPROPRIATIONS	1,085.6	1,114.6	1,076.8	1,046.3	1,107.25	1,142.70
PENSIONS	114.2	113.2	106.3	112.0	100.53	106.94
DEBT SERVICE	82.6	86.0	86.0	89.1	88.63	88.31
STATE ASSESSMENTS	50.3	51.3	52.4	55.2	56.98	58.40
RESERVE	0.7	0.3	0.0	0.0	0.00	0.00
TOTAL FIXED COSTS	247.8	250.9	244.8	256.2	246.13	253.65
TOTAL RECURRING EXPENDITURES	1,333.3	1,365.5	1,321.6	1,302.5	1,353.38	1,396.35
OPERATING DEFICIT-PRIOR YEAR	0.0	0.0	0.0	0.0	0.00	0.00
OVERLAY DEFICIT - PRIOR YEAR	1.0	0.0	0.0	0.0	0.00	0.00
PRIOR YEAR DEFICIT	1.0	0.0	0.0	0.0	0.00	0.00
TOTAL EXPENDITURES	1,334.3	1,365.5	1,321.6	1,302.5	1,353.38	1,396.35
SURPLUS (DEFICIT)	10.3	2.6	2.6	2.5	0.00	0.00

SICUT PATRIBUS SIT DEUS NOBIS.

BOSTONIA.
CONDITA A.D.
1630.

CIVITATIS REGIMINE DONATA A.D. 1822.

Tax Order

CITY OF BOSTON
IN CITY COUNCIL

Appropriation and Tax Order for the fiscal year Commencing July 1, 1994 and ending June 30, 1995

ORDERED:

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 1994 and ending June 30, 1995, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only — said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be $3,500,000), being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions, in addition to the total real and personal property taxes of prior years collected from July 1, 1993 up to and including March 31, 1994, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand July 1, 1994, as certified by the Director of Accounts under said Section 23, and the balance of said appropriations to be raised by taxation pursuant to said Section 23:—

CITY DEPARTMENTS

		Personal Services	Contractual Services	Supplies and Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures and Improvements	Land & Non Structual Improvement to Land	Total
	OFFICE OF THE MAYOR									
011-140-0000	ASD/Intergovernmental Relations	483,995	149,274	2,000	109,000					744,269
011-151-0151	Law Department	2,415,924	761,461	36,500	51,165	66,800				3,331,850
011-111-0111	Mayor, Office Expenses	1,126,442	101,000	17,000	7,000					1,251,442
011-411-0411	Press Office	176,779	11,081	500	200					188,560
	CHIEF OPERATING OFFICER									
011-140-0000	ASD/Administrative Division	283,120	20,500	600	1,500					305,720
011-140-0000	ASD/Human Resources	1,318,720	39,600	16,500	68,076,380					69,451,200
011-140-0000	ASD/Management & Information	4,009,328	1,237,930	170,000	1,026,420	57,000				6,500,678
011-140-0000	ASD/Printing	1,026,800	143,000	39,600			110,000			1,319,400
011-140-0000	ASD/Purchasing	766,164	54,200	13,450	975		6,800			841,589
011-610-0600	Health and Hospitals Department	111,172,200	51,737,700	14,112,400	3,490,100	499,400	32,373,700			213,385,500
011-175-0175	Management Fund						210,000			210,000
011-199-0199	Unemployment Compensation						50,000			50,000
	BASIC CITY SERVICES									
015-400-3321	Cemetery Division	553,784	109,500	69,768	27,348	33,300			20,000	813,700
011-114-0114	Consumer Affairs & Licensing Office	293,744	19,800	5,356	1,800					320,700
011-121-0000	Election Department	2,549,803	164,800	49,900	43,437	12,860				2,820,800
011-110-0110	Library Department	13,773,050	2,957,450	2,213,000	426,500	30,000				19,400,000
011-300-0301	Parks and Recreation Department	6,250,519	1,332,371	268,400	449,564	5,000	387,000		50,000	8,742,854
011-188-0000	Public Facilities Department	3,471,278	961,066	177,750	90,647	300				4,701,041
011-311-0311	Public Works Department	14,791,183	35,660,062	1,151,940	839,915	19,800		200,000		52,662,900
011-180-0000	Property Management Department	2,281,502	3,027,378	106,600	7,740	1,500				5,424,720
011-163-0163	Registry Division, City Clerk Dept	630,071	20,129	6,200	1,650	350				658,400
011-331-0331	Snow Removal						3,250,000			3,250,000
011-251-0250	Transportation Department	13,302,140	7,013,420	780,600	1,228,740	142,000				22,466,900
011-448-0448	Youth Fund						3,400,000			3,400,000
	EDUCATION									
011-383-0382	Reserve for Enrollment Expansion						4,000,000			4,000,000
	CHIEF FINANCIAL OFFICER									
011-140-0000	ASD/ Workers Compensation Service	343,015	37,600	10,680	905	9,200				401,400
011-140-0000	ASD/Budget Management, Office of	1,310,623	523,100	18,000	6,182	500				1,858,405
011-140-0000	ASD/Labor Relations	431,133	15,167	1,500						447,800
011-136-0136	Assessing Department	3,984,780	340,870	61,000	417,600	17,000				4,821,250
011-131-0131	Auditing Department	1,275,070	50,865	8,320	3,700	1,275				1,339,230
011-333-0333	Execution of Courts, Damage Claims						8,500,000			8,500,000
011-139-0139	Medicare Payments						1,500,000			1,500,000
011-416-0416	Office of Capital Budgets	199,245	18,391							217,636
011-374-0374	Pensions and Annuities - City						7,200,000			7,200,000

		Personal Services	Contractual Services	Supplies and Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures and Improvements	Land & Non Structual Improvement to Land	Total
011-192-0192	Retirement Board	1,123,800								1,123,800
011-137-0000	Treasury Department	1,921,329	218,023	340,150	22,030	1,650	1,000			2,504,182
011-341-0342	Workers Compensation Fund						3,340,000			3,340,000
	ECONOMIC DEVELOPMENT									
011-140-0000	ASD/M/WBE Division	212,875	3,500	1,640	160					218,175
011-303-0303	Environment Department	426,975	21,000	5,500					10,000	463,475
011-261-0260	Inspectional Services Deptartment	6,842,377	771,234	143,300	504,089	49,000				8,310,000
011-188-0000	Public Facilities Department	1,669,082	586,313	89,000	199,937	22,391				2,566,723
011-180-0000	Property Management Department	512,198	253,682	14,000	2,000	1,000				782,880
011-384-0384	Rent Equity Board	1,145,505	48,885	24,300	3,500					1,222,190
011-415-0415	Special Events and Tourism, Office	350,615	352,700	7,000	1,600		190,185			902,100
	PUBLIC SAFETY									
011-221-0221	Fire Department	80,319,727	2,378,400	1,853,300	1,551,470	242,200				86,345,097
011-211-0211	Police Department	121,253,748	6,073,942	5,217,979	4,750,293	1,827,538				139,123,500
	HEALTH AND HUMAN SERVICES									
011-403-0403	Civil Rights, Office of	517,036	30,029	5,735	3,600					556,400
011-503-0503	Cultural Affairs, Office of	187,963	8,350	4,000	1,000	2,500				203,813
011-387-0387	Elderly, Commission on Affairs of	1,557,366	98,550	42,000	58,684	11,000				1,767,600
011-406-0406	Emergency Shelter Commission	148,657	173,122	8,900	1,500					332,179
011-412-0412	Neighborhood Services, Office of	934,732	42,420	24,478	270					1,001,900
011-188-0000	PFD/Community Centers	7,373,920	1,659,500	134,000	194,320	403,660				9,765,400
011-115-0115	Safe Neighborhoods Office	44,968	500,000							544,968
011-740-0000	Veterans Services Department	687,636	120,320	8,000	1,609,944					2,425,900
011-417-0417	Women's Commission	101,125	3,000	500	500					105,125
011-161-0161	City Clerk Department	537,947	17,493	11,000	1,500					567,940
011-112-0112	City Council	2,361,730	132,500	42,300	33,800	340				2,570,670
011-193-0193	Finance Commission	135,467	3,793	400	1,100					140,760
011-252-0252	Licensing Board	400,485	19,650	7,020	3,345	500				431,000
	TOTAL CITY DEPARTMENTS	418,987,675	120,024,121	27,322,066	85,253,110	3,458,064	64,518,685	200,000	80,000	719,843,721

COUNTY DEPARTMENTS

		Personal Services	Contractual Services	Supplies and Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures and Improvements	Land & Non Structual Improvement to Land	Total
	CHIEF OPERATING OFFICER									
011-140-0000	ASD/Human Resources	150,000			3,300,000					3,450,000
	CHIEF FINANCIAL OFFICER									
011-140-0000	ASD/Workers Compensation Service	110,000								110,000
014-139-0139	Medicare Payments						250,000			250,000
014-749-1375	Pensions and Annuities - County						600,000			600,000
011-341-0342	Workers Compensation Fund						460,000			460,000
014-745-0165	Registry of Deeds	1,434,000	98,400	30,000	3,600					1,566,000
014-747-0000	Suffolk County Sheriff's Dept	9,161,489								9,161,489
	TOTAL/COUNTY	10,855,489	98,400	30,000	3,303,600	0	1,310,000	0	0	15,597,489

FURTHER ORDERED:

II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 1994 and ending June 30, 1995, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 1993, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 — the same to be expended under the direction of the Commissioner of Parks and Recreation:—

015-400-3321

Cemetery Division *Parks and Recreation Department* *Personal Services*	$600,000

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

April 13, 1994

TO THE CITY COUNCIL

Dear Councillors,

I transmit herewith an appropriation order in the amount of $404.960 million for the Boston School Department for FY95, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987 and Chapter 108 of the Acts of 1991.

The School Department projects an additional $57.504 million in external funds for FY95, for a total operating budget of $462.464 million. In addition, the City's FY95 Capital Plan outlines $18 million in school investment, a $4.5 million increase over last year's plan.

This appropriation represents a $4.4 million or 1% increase after accounting for one-time FY94 expenses and the City's direct appropriation to Community Centers for alternative education programs. In addition, a $4 million reserve for potential growth in student enrollment has been included in the City's budget to offset new costs associated with expanded numbers of students. As soon as additional costs are identified, I will recommend to you a supplemental appropriation from that reserve. Over the last decade the Boston School Department's student enrollment has increased by 7,240 with most of the increase in the last four years.

My commitment to education has never been stronger. I pledge to support and work closely with the School Committee and the Superintendent to bring about improvements in student achievement and maximum efficiency in the use of our resources. As a reflection of my attention to our School Department, the FY95 Proposed Budget includes a section on the Boston Public Schools, presenting expenditure and budget information and specific performance indicators for School Year 1994-1995.

I respectfully request your support of the FY95 appropriation for the Boston School Department.

Sincerely,

Thomas M. Menino
Mayor of Boston

BOSTON CITY HALL • ONE CITY HALL PLAZA • BOSTON • MASSACHUSETTS 02201 • 617/635-4000

CITY OF BOSTON
IN CITY COUNCIL

ORDERED:

That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987, and Chapter 108 of the Acts of 1991, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 1994 and ending June 30, 1995, the sum of FOUR HUNDRED FOUR MILLION NINE HUNDRED SIXTY THOUSAND DOLLARS ($404,960,000) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws: —

School Department	$404,960,000

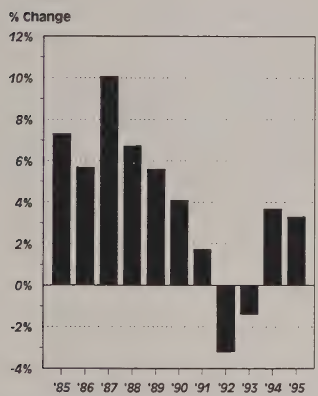
Revenue Estimates & Analysis

Revenue Estimates and Analysis

In spite of recent declines in revenue, the City has avoided acute fiscal crisis.

Overview

The positive revenue growth expected for FY94 and FY95 represents a mild turnaround for the City. (Figure 1.) This turnaround is linked directly to improvement in the state's financial situation and the consequent increase in local aid. There are, however, some major caveats to the City's improved fiscal picture. 1) The City's largest revenue source, the property tax, is extremely close to the 2.5% rate cap set in Proposition 2 1/2, thus leaving the City vulnerable (if the real estate values experience a future downturn) to a required reduction in the property tax levy for the first time since FY84; 2) While the growth in statewide local aid distributions in FY93, FY94 and (most likely) FY95 is significant, the City of Boston is not a major beneficiary for reasons described in more detail in the local aid section.



Annual Change in City Revenues
FY85 - FY95

Figure 1

The City maintained balanced budgets and a high credit rating throughout the recent period of fiscal challenge. In spite of a decline in total revenues in FY92 and FY93, and a decrease in the annual rate of growth in revenue in the four years preceding FY92, the City has avoided acute fiscal crisis and has managed to stave off dramatic reductions in the level of services it provides. Nevertheless, consecutive years of decline in several major revenue sources have taken some toll on the full range of City services, such that there have been substantial reductions in a majority of departmental appropriations since FY89, the number of total City and County employees has declined by 18.3%, and there has been a noticeable decrease in public safety personnel. Furthermore, the City has needed to utilize reserve funds in order to mitigate service reductions. Under these circumstances, the minimal growth expected for FY95 revenues will do little more than cover inflationary cost increases.

The Economic Outlook

This chapter begins with a review of the national and state economy and trends which will impact on the Boston economy in FY95 and beyond. This is followed by an analysis of recent state budget trends and related implications for cities and towns. A detailed discussion of each of the major revenue categories shown in the Summary Budget begins on page .

The City's financial situation is less dependent on general economic conditions than is the state's. The Commonwealth's tax revenues clearly are economy-driven, however, and because the City depends in part on the state distribution of local aid to cities and towns, current national and regional economic trends have a substantial impact on the City's fiscal health. In addition, trends in the national financial markets impact the local real estate market, which in turn has a substantial impact on the City's largest source of revenue, the property tax. These trends, which remain largely beyond the City's direct control, partially define the economic, demographic, and financial environment in which the City operates.

A key to Boston's fiscal survival is the emergence of the Commonwealth from financial crisis. After several consecutive years of decline in its fund balance and two major operating deficits, the Commonwealth's budget planners have succeeded in improving its financial position during FY91, FY92 and FY93. During FY92, FY93 and FY94, actual state tax revenues consistently exceeded projections,

and projections were revised upward around the middle of the year. Moderate economic recovery during FY94 has had a positive impact on the state tax revenues. This situation contrasts radically with the background against which the FY91 and FY92 state budgets were debated and against which large reductions in state aid to municipalities were made.

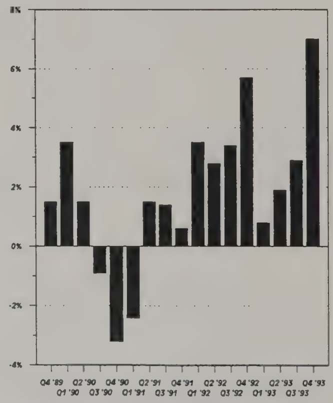
The City experienced, along with all of New England, the worst side of the recent national recession. (In fact, the City lost a greater percentage of jobs during the recession than did New England, Massachusetts, or the Boston Metropolitan area.) Now, a well established economic recovery has taken hold. However, the City is not in a position to build the economic recovery into its overall budget plan because the two areas where such positive development could most deeply impact the City's budget are property tax and local aid. To date, the governor and the legislature have opted to direct the major benefits of the recovery to state efforts to increasing and equalizing local educational spending, while allowing minimal increases in aid for other local services.

In the case of the property tax, there has been a slight uptick recently in some downtown commercial rents. In order to renew the confidence of developers and investors, however, such a trend will have to become more broad-based and be sustained over time. Even if the trend takes hold, the earliest one might see a year of significant commercial development is 1995 or 1996, and that growth would not impact the City budget until FY97 and FY98.

The U.S. is currently experiencing a period of strong economic growth. President Clinton has behind him a successful first battle against structural difficulties in the U.S. economy: his first budget, passed last summer, is widely hailed as a fundamental turning point in the battle against the deficit. The current climate of economic growth provides the opportunity to continue to address the federal deficit and the rapidly rising costs of health-care.

The National Outlook

Following the 1990-1991 recession, the recovery began in earnest in 1992 as the Gross Domestic Product (GDP) grew for the year by an estimated 3.2%, with a fourth quarter annualized growth rate of 5.7%. Growth in 1993 is also above 3%, anchored by a 7.0% growth spurt for the fourth quarter. (Figure 2.) This is the strongest quarter of growth in the GDP in a decade. The recovery has been fueled in part by lower interest rates. For example, rates on conventional 30-year mortgages fell to a 25-year low in October, 1993 of under 7%. Since then, this rate has risen—to 7.44% as of February, 1994. The rate in February and the likely further mild increases during the remainder of 1994 will still keep the conventional 30-year mortgage rate historically low. Low interest rates in 1993 led to a record $535 billion in refinancing. This, in turn, helped fuel the economy as individuals dramatically lowered their monthly mortgage payments, freeing up dollars for discretionary consumer spending. Refinancing will subside dramatically in 1994, but slightly higher interest rates are less of an impediment for first time mortgage buyers. Because of the combination



Real Gross Domestic Product
Annualized Rates of Growth

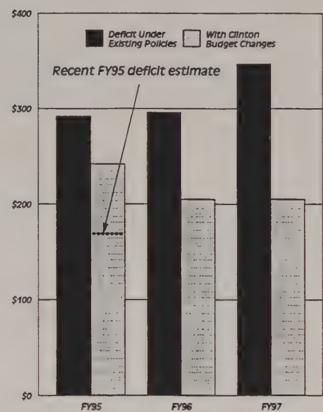
Figure 2

To date, the governor and the legislature have opted to direct the major benefits of the recovery to increasing and equalizing local educational spending.

According to recent data, during the twelve months preceding February 1, 1994 Massachusetts added approximately 70,000 jobs.

of historically low interest rates and the economic recovery, first time buyer mortgage applications are expected in 1994 to exceed 1993's record level of $495 billion. This bodes well for continued economic growth throughout 1994.

Last year, debate of national economic policy focused upon the federal deficit. It is assumed by most interested observers that the federal government's massive borrowing increases interest costs on the reduced capital available for other borrowers and thus acts as a drag on the economy. President Clinton addressed this issue with a package of tax increases and spending reductions that require "shared sacrifice." The package passed Congress more or less intact. But even with the passage of the Clinton Administration's anti-deficit package and the recent strengthening of the economy, the federal government is still expected to incur a large amount of debt over the next five years to meet its expenses. Thus it is significant that President Clinton's proposed FY95 budget, which to date has been relatively well received by Congress, aims to drive down next year's deficit to $175.3 billion. (Figure 3.) This would be the lowest deficit in six years and also would represent a major improvement upon the amount projected for FY95 in last year's deficit reduction plan.



President Clinton's Deficit Reduction Plan
In Billions of Dollars

Figure 3

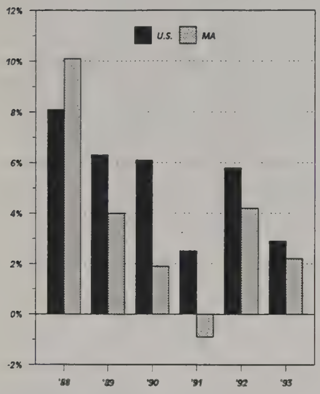
The State Outlook

Massachusetts and all of New England experienced impressive growth through most of the 1980's, with employment and income gains surpassing those of other regions. A regional economic slowdown began in 1989; beginning in 1990 the region experienced the national recession more deeply than did other parts of the country. The more severe impact from the recession in New England is due both to the region's very rapid expansion in the 1980's and to the industry mix which made that expansion possible. For example, continued employment gains throughout the 1980's lowered the unemployment rate, causing labor shortages in some areas and subsequent high wage increases that could not continue indefinitely. Thus, over the period 1982 through 1988, total wage and salary gains averaged 9.5% per year in Massachusetts and 7.1% in the U.S. The relative positions reversed in the period 1989 through 1993, as Massachusetts averaged annual gains of 2.3% and the U.S. averaged 4.7%. It is worth noting that the wide gap in wage and salary growth that opened up in 1990-1991 as Massachusetts experienced the recession more deeply has been reduced during 1992-1993. (Figure 4.)

As measured by numbers of jobs, Massachusetts has been slow in emerging from the recent recession. During 1993 the average annual nonagricultural employment level in the U.S. increased by 1.7 million jobs or 1.5%; in Massachusetts it decreased by 7,000 jobs or 0.3%. The portion of U.S. employment located in Massachusetts went down between 1988 and 1993 from 3.0% to 2.5%.

Nevertheless, there has been a mild trend of improvement for Massachusetts employment between the beginning and end of 1993. According to figures freshly revised by the Bureau of Labor and Statistics, during the twelve months preceding February 1, 1994 Massachusetts added approximately 70,000 jobs. In general,

jobs have been the weak link in the U.S. and the Massachusetts recovery, registering significant improvement only long after improvements in investment, corporate profits and consumer spending have occurred.



Total Wage and Salary Growth

Note: 1993 is average of first 3 quarters only

Figure 4

In the 1980's, the defense industry contributed to the state's rapid expansion. Massachusetts had reaped the benefits of an expanding Defense Department budget, averaging annually $1,405 per capita during FY87-FY89 in prime contract awards (nearly a quarter relating to research), as compared to the U.S. average of $514. An estimated 6% of goods and services in Massachusetts for 1989 was attributable to the defense sector. But now this makes the state more vulnerable to defense budget reductions that are accelerating as a central piece of the Clinton Administration's deficit reduction plan. Already, according to one estimate, the state will have lost approximately 17,000 civilian defense-related jobs between 1990 and 1993. Accelerated reductions in defense over the next five years will diminish further the number of defense related jobs. Meanwhile, there are some ongoing post cold war conversion efforts in major companies that have depended on defense contracts. One such development of special note is the passage of special legislation designating the 5,000 acre army base For Devens as the "Fort Devens Enterprise Zone." Upon the closure of the base in 1995 state policy makers are engaging in an all out attempt to make Fort Devens a major business center.

By 1989, a combination of the local building boom and a slowdown in other parts of the local economy resulted in an oversupply of both office and residential space. In 1991 housing permits authorized for single residential units hit their lowest point in nine years in Massachusetts. However, this appears to be the recessionary trough for such housing construction, as there were increases in 1992 and 1993 of approximately 35% and 8%. Similarly, the value of nonresidential building construction contracts, after dramatic dips in both 1990 and 1991 in Massachusetts, increased by approximately 36% in 1992 and 7% in 1993. The level is still well below the 1987-1989 peak, however, and is more reflective of construction activity of tax-exempt institutions and public works projects than of a resurgence in commercial construction.

The current construction of the new Boston Garden is a major step forward for local development. After decades of proposals falling by the wayside, the special legislation representing the negotiated agreement of terms among financiers, owners, and overseers of the public interest was signed into law early in 1993. A flood of public discussion about a much more ambitious project, the building of a sports and convention "megaplex" has followed. Such a project would be likely to give a significant boost to the local economy. Meanwhile an organized drive has begun to attempt to bring the Summer Olympics to Boston in 2008.

According to the Bureau of the Census 1987 Census of Manufacturers, 190,400 of Massachusetts manufacturing jobs (representing 6.4% of its civilian labor force) were dependent on exports. Massachusetts' most important exports are industrial machinery, computer equipment, and other electronic equipment. In 1992 the state's manufacturing exports in-

Over the last three years, the state has been relatively successful in balancing its own budget.

creased by 2.2% for a total dollar value of $12.2 billion. And, in a related development a year ago, the port of Boston reestablished direct shipping service to Europe for the first time in over twenty years, thus giving a boost to local exporters who will be able to shave six or seven days off the current transit time.

Generally, freight shipped through Boston travels down the East coast and stops at larger ports before making the Atlantic crossing, or companies opt to truck their goods to the larger ports directly. Either way, this increases the cost for local exporters. The amount of goods to be directly shipped from Boston to Europe will initially be small. But such exporting is likely to increase as the new intermodal facility at Fort Devens outside Route 128 will enable freight from double and triple-stacked freight cars to be efficiently transferred to smaller cars which fit under the 14 low bridges which block direct access to and from Boston Harbor for rail shipping. Since Boston Harbor receives much more in goods than it sends out, the improved access between ocean and rail holds even greater potential for boosting imports coming through Boston.

The State Budget

The most important recent state budget development for local governments has been the renewal of increases in funding of local aid in FY93 and FY94 after 3 years of significant reductions. These reductions reversed a seven year state commitment to sharing state revenue growth with cities and towns. Over the last three years, the state has been relatively successful in balancing its own budget. This now gives the Commonwealth the capacity to support an adequate and diversified local revenue base and creates the potential to reduce the current over-reliance by municipalities on the property tax.

Statutory deficits reached a shockingly high level in FY89 and FY90 with deficiencies of revenues versus expenditures of $672.5 million and $1.252 billion, representing 5.2% and 9.3% of total expenditures. (The latter is the equivalent to Boston incurring a $120 million deficit in its operating budget).

In brief, it appears that state government was relatively quick to react to the good news of the surprising upswing in revenues from FY83-FY86, when total state taxes increased by over 13% in three of the four years. The average annual rate of growth in tax revenue for those years was only 2% above the rate for spending growth as large midyear supplemental spending authorizations were enacted each year. Thus, in spite of rapid increases in total state taxes during FY83-FY86, the buildup in reserves was relatively small and fully utilized in the medium sized deficits in FY87 and FY88 that preceded the much larger deficits of FY89 and FY90. When revenues took a turn for the worse in FY87 and FY88, state officials were slow to act, in contrast to their swift reaction to the good news earlier in the decade. The gap by which spending increases exceeded tax revenue growth averaged almost 5% annually. The rest of this section provides a short summary of the major changes that led to return of relative fiscal integrity in the state budget.

Revenues: The Commonwealth enacted two major income tax increases. The first increase was enacted in July, 1989 and financed the FY89 deficit and Medicaid-related borrowings by raising the effective income tax rate from 5.0% to 5.375% for tax year 1989, and to 5.75% for tax year 1990. It is estimated that the related increases in income tax receipts in FY90 and FY91 were $444.5 million and $293.9 million. The second increase was enacted in 1990 and increased rates for both earned and unearned income. The rate for earned income increased in 1990 to 5.95%, in 1991 to 6.25%; for 1992 and subsequent years it went back down to 5.95%. The rate for unearned income increased from 10% to 12% for 1990 and subsequent years. The resulting increases in revenue for FY91 and FY92 are estimated at $700 million and $841 million. Also in accordance with 1990 legislation, up to 15% of state income tax revenue is pledged to the payment of the $1.4 billion borrowed to finance the FY90

deficit. This debt is currently scheduled to be fully paid by the end of FY98.

Several other changes in the Commonwealth's tax code have been enacted the last few years. The sales tax was extended to certain utility costs including telecommunications, netting an estimated $100 million in FY92, $112 million in FY93, and similar amounts thereafter. In 1990 the motor fuel excise was increased from 11 cents per gallon to 17 cents effective July 28, 1990, and further increased to 21 cents effective January 1, 1991. These rate increases have resulted in total motor fuel excise receipts going from approximately $300 million in FY90 to close to $600 million estimated for FY94. A new excise of 1.25 cents per cigarette was enacted by petition in November 1992 and imposed beginning January 1, 1993. The additional excise has resulted in total cigarette excise receipts going from $140 million in FY92 to an estimated $238 million in FY94.

There have also been several tax reductions enacted recently, partially offsetting the income and other tax increases described above. A major phased-in reduction in the estate tax was approved in 1992. The estimated impact on state taxes for FY94 and FY95, according to the Commonwealth's most recent bond prospectus, is $24.8 million and $72.5 million. A tax credit for corporate research and development was enacted in 1991. The impact of this tax credit, as estimated in the Governor's FY95 proposed budget, is $34 million in FY94 and $36 million in FY95. The extension of the sales tax to businesses and services was repealed in 1991 (excepting certain utilities). It is estimated in the Governor's proposed FY95 budget that the state will have foregone $156 million in FY94 and $168 million in FY95 (and similar amounts in the years prior) by repealing the sales tax extension to services.

A significant element in the state's dramatic improvement towards balancing the budget—an improvement from a deficiency of $1.252 billion in FY90 to a deficiency of just $21.2 million in FY91 and small surpluses thereafter—was the state's receiving, for the first time, federal reimbursement for uncompensated care payments to hospitals. This middle-of-the-year discovery that the state could be reimbursed for the uncompensated care pool netted the state $513 million in FY91, $198.6 million in FY92 and $236.3 million in FY93. The FY94 reimbursement is estimated at $219 million. The state was able to apply for such a reimbursement because of recent amendments to federal law contained in the Omnibus Budget Reconciliation Act of 1990.

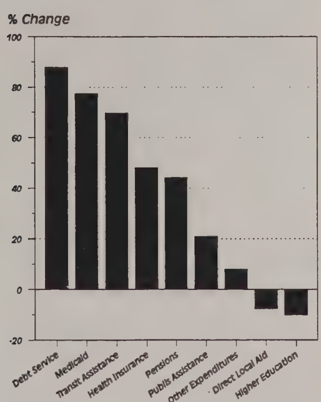
The Commonwealth's ability to meet its obligations at the end of the fiscal year has been a telltale indicator of its fiscal status. In FY89 the state treasurer had to defer temporarily $305 million in local aid due at the end of year. In FY90 the amount of local aid deferred temporarily at the end of the year grew to $1.26 billion. But after meeting all its obligations by the end of the fiscal year in FY91, FY92 and FY93, the Commonwealth had cash balances of $182.3 million, $731 million and $622 million. The Commonwealth, in its January 1994 bond prospectus, projected an end-year cash balance in FY94 of $725 million.

Expenditures: Since FY89 (up through FY94) total state expenditures have increased by a cumulative $2.9 billion or 22.1%, a relatively small increase as compared with increases in the mid-eighties, when it was not unusual for expenditures to increase over 10% annually. The cost of Medicaid, debt service, and regional transportation has continued to climb, but the state has made a major effort at controlling these costs on a long-term basis. As a result of funding reductions, the state has been relatively successful in pressuring higher education, regional transportation, and municipalities—all entities with revenue sources of their own—into increasing their own revenues. (Figure 5.)

Since FY89 the state's annual cost for debt service has increased by 87.8% or $570 million. Part of this increase was due to the precipitous rise in capital spending by the Commonwealth, increasing between FY87 and FY89 from $600 million to $971 million. In response,

Significant local aid reductions played a key role in the state's return to a balanced budget.

such spending was capped administratively at $925 million per fiscal year. Subsequently, capital spending decreased in FY90, FY91, FY92 and FY93 to $936 million. $847 million, $694 million and $576 million. Inasmuch as each year's debt service represents obligations for borrowings of the past two or more decades and is only slightly impacted by the current year's borrowing, it will take several more years of such reduced capital-spending levels to impact fundamentally the debt service level. In the near-term, what has profoundly impacted the cost of debt service is the financing of the 1990 $1.252 billion deficit. Of the $570 million increase between FY89 and FY94, $279 million is a result of financing the FY90 deficit. The remaining debt service payments related to the FY90 deficit are estimated (a portion of the interest is at a variable rate) at approximately $279 million per year for FY95-FY97, and $130 million for FY98.



State Expenditure Growth
FY89 - FY94

Figure 5

Since FY89 the state's annual cost for Medicaid has increased by 77.4% or $1.419 billion. Since Medicaid is 50% reimbursable by the Federal government and the state's Medicaid reimbursements have increased correspondingly, a better estimate of the impact of Medicaid expenditure increases on the state budget is arrived at by reducing the spending increase by half, down to $709 million. This may well be the most difficult item to control in the budget. The Medicaid caseload has grown from approximately 492,000 in FY89 to 650,000 in FY94. What makes the Massachusetts Medicaid program expensive relative to those in other states is that the portion of its elderly who live in nursing homes is significantly above the national average. That population in Massachusetts is, moreover, particularly dependent on Medicaid, which covers 65% of nursing home costs as compared to the 43% national average. A host of ongoing initiatives addresses this and other Medicaid issues. These initiatives include a comprehensive managed-care approach to Medicaid administration, the repricing and buy-in of Medicare services for Medicaid patients, and restrictions on nursing home eligibility.

Since FY89 the state's annual cost for direct local aid including education grants has decreased by 7.6% or $223.7 million. Significant local aid reductions played a key role in the state's return to a balanced budget. A common theme in the Commonwealth's budget publications in the late 1980's was that municipalities had not fully utilized their capacity to raise property taxes under Proposition 2 1/2. The local aid reductions in FY90, FY91, and FY92 pressured cities and towns to maximize local revenue. Thus, as reductions in local aid became part of the state's budget solution, the excess levy capacity (resulting from cities and towns in prior years not raising the maximum levy allowable under Proposition 2 1/2) was utilized and, consequently, shrunk to less than half of 1%, down from a peak in FY87 of slightly under 3%. And, not unlike the state, cities and towns have increasingly utilized their reserves to fill in budget gaps. Between the end of FY88 and FY92 free cash reserves dwindled by 56% from $386.9 million in FY88 to $168.9 million in FY92; during the same period negative free cash balances went from $3 million to $74.8 million. Local receipts (such as excise receipts, fees, fines, and charges for hospital ser-

vices or trash pickup, etc.) increased between FY89 and FY92 by 31.3%, partly as a result of fee and fine increases or the reconstitution of tax-based services as fee-based services.

Local aid cuts also reduced many municipal workforces and services and in some instances created havoc, especially for cities already experiencing fiscal crises prior to the reductions. The state addressed these cases, partly through parcelling out some emergency local aid and partly through advising or direct involvement in local fiscal decision-making. However successful this band-aid approach of emergency aid for the worst cases may be on a statewide basis, the data clearly demonstrate that cities and towns have more or less used up their reserves, excess levy capacity, and capacity to increase local revenues. In FY93, state officials, driven by practical considerations and availability of resources, reinstituted increases in local aid in the form of aid earmarked for education.

Since FY89 the state's annual cost for higher education has decreased by 10.1% or $74.8 million. Major increases in tuition and fees have been put in place during FY89-FY94, including a 6% tuition increase for most campuses in FY92, a 4% tuition increase for all campuses in FY93, and a 2% tuition increase in FY94. In addition, non-resident student tuition now covers 100% of cost. Thus, as in the case of local aid, state funding reductions have forced state public higher education institutions to maximize their own resources.

The state's annual cost for the Massachusetts Bay Transit Authority and other regional transit authorities has grown by 69.7% or $215.6 million since FY89. This growth has been mitigated by fare increases, instituted partly in response to limits on state funding for these authorities.

Local Aid

In the past, "local aid" has referred primarily to state distributions to municipal general revenues from the state's Chapter 70 and additional assistance accounts (which had been jointly referred to as resolution aid) and from lottery distributions. The amount of these funds to be distributed each year to an individual community is described (along with other relatively smaller state programs such as equal education opportunity funding, school construction reimbursements and highway funds) on the "cherry sheet." The cherry sheet is sometimes issued on a preliminary basis when municipal budgets are debated in the spring and is revised or finalized subsequent to passage of the state budget.

State Revenue Sharing: Since FY82 there have been three distinct phases in state local aid funding policy. From FY82-FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2. A reasonable annual increase in local aid became an essential component in the financial planning for Massachusetts municipalities. The enactment of Proposition 2 1/2 would have led to an ongoing deterioration of basic municipal services throughout the 1980's had its consequences not been offset by increases in local aid between FY82 and FY89. The Commonwealth recognized that state revenue sharing in the form of local aid was essential in maintaining critical local services.

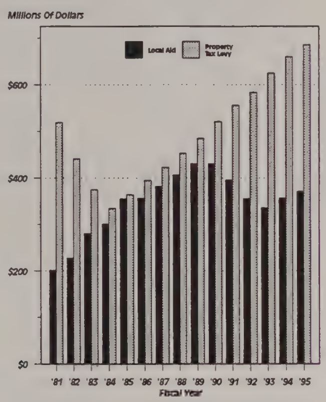
From FY82-FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2.

During this period, the Commonwealth pledged to "share" an estimated 40% of the growth in the state's three largest tax revenue sources: income tax, sales tax, and corporate excise tax. The 40% pledge was only actually achieved in half of the years from FY84 to FY91, sometimes as a consequence of tax revenues that came in lower than projected. But the state's policy of sharing its growth revenues did lead to local aid growth through FY89. In FY81 local aid amounted to about one-fifth of all municipal revenues statewide. In FY89, in contrast, it represented almost one-third of all local revenues.

Boston's experience was typical: Local aid represented 20% of all General Fund revenue in FY81. By FY89, it had increased to represent 32%. This increased local aid did not translate into rapidly increasing spending on the part of the City. It simply mitigated the impacts of the

With the exception of higher education, local aid suffered the largest cut of any significant state expenditure category.

Proposition 2 1/2 limitation. Local aid amounts, when added to Boston's own tax receipts, were still not enough to bring Boston's revenues back to the FY81 level for some time. It was not until FY86 that City tax receipts plus local aid exceeded FY81 nominal amounts. (Figure 6.) And in constant dollars, the total of local aid plus the property tax levy has continued well below its 1981 level.



Comparison Of Local Aid And Property Tax Levy

Figure 6

Local Aid Reductions: The second phase occurred between March, 1989—when the House of Representatives rescinded the last proposed net increase of the 1980's in unrestricted local aid—and the enactment of the FY92 budget. The governor and the legislature during this period reduced state revenue sharing with cities, towns, and regional schools. Between FY89 and FY92, state-wide "cherry sheet" aid declined $602 million or 20% while all other state spending increased by $1.5 billion or 15%.

With the exception of higher education, local aid suffered the largest cut of any significant state expenditure category during the FY89-FY94 period. The extraordinary impact of this period of withdrawal of commitment is reflected in the fact that in FY80, before Proposition 2 1/2 was passed, 23% of the total state budget went to local aid. In FY94, two years into large education reform aid distributions by the state, 17.3% of total state spending supports local aid.

The reduction of local aid funding fundamentally altered the financial relationship between the state and its municipalities, ending an eight year period (FY82-FY89) in which a stable and dependable local aid funding policy allowed for planning and predictability in local budgets and services. FY94 was the fifth straight year in which there was no actual approved local aid allocations available prior to the submission of the Mayor's budget to City Council. For FY95, the House of Representatives and the Senate have approved early local aid resolutions, thereby reversing their "no early resolution for local aid" budget policy of the previous five years.

The Commonwealth's retreat from local aid came at a point in time when the regional economy was weakest, and over time, the City's revenue base had become more sensitive to the economy. Thus, many local sources of revenue (new construction additions to the property tax levy, local option excise receipts, building permit receipts, and interest income, for example) were decreasing at the same time that local aid was being reduced.

The impact of local aid cuts on the City is compounded because Boston faces extraordinary demands for services at the same time that so much of its land is exempt from property taxes. The population of the City nearly doubles during the day as commuters and visitors enter the City. As a result, the City must provide police and fire protection and has to clean up after twice as many people as it would otherwise. In addition, few large municipalities nation-wide assume, as does Boston, such a wide array of fiscal responsibilities, including schools, hospitals, and county costs. Boston finances a greater share of county corrections costs than does any other municipality in the state.

In developing alternatives to local aid, Boston has had few opportunities to

broaden its municipal tax base. The only available local option taxes are the jet fuel and room-occupancy excises. Although Boston has taken full advantage of these options since 1985, they add only a modest amount to total City revenues. Nationally, cities with a population of 300,000 or more generate, on average, less than half of tax revenues from property taxes because sales and income taxes allow for a more diversified tax base. But in FY94, 93% of Boston's local tax revenue comes from the property tax levy.

In the mid-1980's, state revenue sharing in the form of local aid was critical as an implicit source of diversified tax revenues to support municipal services. The very heavy direct dependence on the property tax had been mitigated by access to growth in state income, sales, and corporate tax revenues. These local aid dollars had become basic funding for public services—police and fire protection, education, public works, and health care—that municipalities are expected to provide.

Local Aid Recast as Educational Aid: The third and most recent phase began with passage of the FY93 state budget which increased local educational aid by $187 million statewide as the initial installment in a multi-year commitment to increase and equalize funding for local education statewide, a commitment teamed with an effort to encourage education reform. The two other significant variances in FY93 local aid were a highway aid reduction of approximately $40 million and the Legislature's increase of lottery aid by $23 million. The state increased local education aid at the same time that it was freezing support for other local services at current levels. While the increase in education funding was certainly preferable to the reductions of the FY90-FY92 period, it left municipalities in a quandary as to how to maintain other basic municipal services such as police, fire, and public works at a reasonable level. This recasting of local aid policy as local educational aid policy was formalized with the passage in June, 1993 of Chapter 71 of the Acts of 1993, and by the specific education reform aid increases of $187 million and $144 million approved in the FY93 and FY94 state budgets. Future annual installments in upcoming years will be subject to appropriation by the legislature.

The FY93 education reform funding increase was mandated to be spent entirely on educational services. Responding to litigation which raised issues of equal access given unequal municipal capacity to support local school systems, the education reform law modified the FY94 educational aid distribution in two ways. First, a small amount of the aid was given as "tax equity aid" and allowed to be spent at the discretion of municipalities in which local spending on education was above a state mandated share of the local tax rate. Second, some municipalities were required to increase their school funding from local sources of revenue because these communities were spending below the state mandated minimum spending level.

In the final analysis, this most recent phase of local aid distribution places a severe handicap upon Boston's ability to deliver adequate services. Because Boston is already spending more than state-mandated amounts on its schools, the City received approximately $7.3 million in tax equity aid in FY94. This compares poorly with new aid amounts in the FY82-FY89 period which averaged over $20 million. In addition, the educational reform act requires numerous mandates on educational spending, and it is unclear at this time whether or not the additional educational aid covers the cost of such mandates. In particular, the charter schools currently scheduled to open in September, 1995 might have a negative impact on Boston's FY96 budget.

Lottery Distributions: In FY94 the lottery remained capped at $329 million, but a new $20 million item called "Municipal Stabilization Aid" was added to the Cherry Sheet and distributed using the lottery formula. The City received $1.9 million from this item. In FY95 the governor in his proposed budget and the legislature in their early resolutions for local aid folded Municipal Stabilization Aid into the lottery distribution and

The most recent phase of local aid distribution places a severe handicap upon Boston's ability to deliver adequate services.

The property tax levy has been the City's most dependable source of major revenue growth during the past ten years.

added $40 million to the FY94 total of lottery and Municipal Stabilization Aid for a FY95 total of $389 million. The City's FY95 net increase over the FY94 total of these two sources is expected to exceed $3 million. This increase and the approval by the legislature of an early resolution on local aid are the most significant improvements in local aid funding by the state since the beginning of educational reform funding in FY93. Nevertheless, in Boston's case the overall FY95 expected local aid increase is relatively small in comparison to most annual increases during the 1980's.

In FY93 the City received its first increase in lottery distributions since FY89, an increase from $25.3 million to $27.2 million. This increase was the City's share of a $23 million statewide increase in lottery distributions, from $306 million to $329 million. In the previous three years the local share of lottery receipts had been capped at $306 million with the sizeable annual excess going to support the state budget.

Up through FY89, the lottery had been a source of annual revenue growth for most municipalities and the capping of these distributions was one further reason why more municipalities received less state aid in FY90-FY92. The City's share of state lottery distributions had been as high as 17.5% in 1980, but was less than 9% from FY86 onward. The main factor lowering Boston's share of lottery proceeds was the emphasis in the lottery distribution formula on equalized valuation per capita. Equalized valuation increased more dramatically for Boston than for most other municipalities in the mid-1980's, thereby driving down the City's lottery share.

Boston's cherry sheet includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost; the City is reimbursed on the cherry sheet by the Commonwealth. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teacher pensions in the state, is the financial responsibility of the Commonwealth.

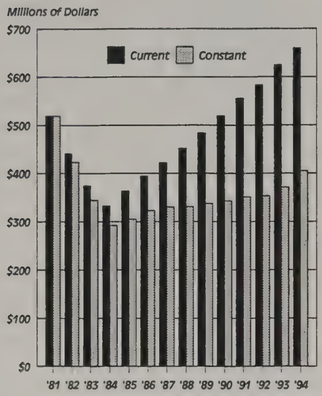
After remaining in the $20 million to $23 million range from FY84 to FY90, the reimbursement increased to $26 million in FY91, $26.4 million in FY92, $27.2 million in FY93 and $28.2 million in FY94. This increase has been driven by an increase in teacher retirements. Due to the early retirement incentive program for 250 teachers last summer, the FY95 reimbursement is expected to jump to $30.5 million.

Property Tax Levy

The property tax levy has been the City's most dependable source of major revenue growth during the past ten years. In FY95 the net property tax levy will provide 47% of all City revenue. The increases have been steady and consistent from FY85 to FY94, ranging from $28 million to $41 million. However, because of the increasing property tax levy base, the $30 million in FY85 represented an 8.9% increase, while the $28 million increase in FY92 represented a 5.0% growth rate. Thus, while the amount in FY85 increased in excess of inflation, the similar amount in FY92 simply kept pace with inflation. (Figure 7.) Meanwhile, the other half of the City's revenue base is only recently emerging from a period of decline. As things stand, property tax is the City's only consistent long-term growth revenue, and its future growth—as explained in more detail below—is now in question.

In each year since FY85 the City increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at $8.3 million and reaching $15.6 million for FY94. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction. This has added to the tax base. The combined effect of the allowable 2.5% in-

crease and taxable new value has been an average annual levy increase from FY91 through FY94 of 6.1%, and a projected increase in FY95 of 3.9%.



Property Tax Levy
Current vs. Constant Dollars

Figure 7

Proposition 2 1/2, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to offset the downward trend in the City's taxable new growth. Thus, with many fewer construction cranes in sight during 1991 and 1992, the City will have added approximately $18 million per year for FY93 and FY94 to the levy base from taxable new growth (exclusive of the reclassification of the Prudential Center as taxable property—see below "CHAPTER 121A".) This is lower than the increases during the construction boom of the mid-eighties, but nonetheless has permitted crucial revenue growth to a budget that has operated along the margins in the 1990's.

From FY85 through FY89 assessed property values in Boston increased at an average annual rate of about 22%, thus far outpacing the capped growth in the levy. This disparity between value appreciation and levy growth showed up in the significant downward trend in the property tax rates. The City's net effective tax rate in FY84 was 2.5%; by FY89 the net effective tax rate had fallen to 1.4%. When the disparity between value growth and levy growth flows in this direction, the City's property tax base becomes more protected (i.e., more distant from the 2.5% threshold tax rate that the City may not exceed) and growth in average tax bills—with all else held equal—remains at the less-than-inflation 2.5%, even though the factors in the equation that determine the bill (VALUE multiplied by the TAX RATE) have each changed dramatically in opposite directions (values up, rates down).

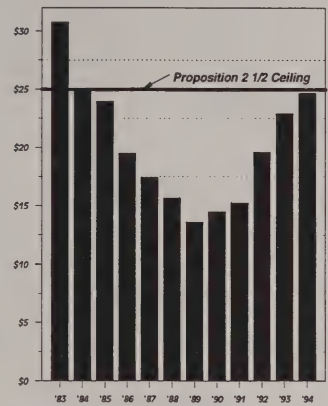
What occurred in the Boston real estate market beginning in 1988 significantly reversed the FY85-FY89 property tax trends described above (which reflect real estate activity in calendar years 1983 through 1987). As economic activity slowed, Boston's real estate values leveled off. Then, as the New England region experienced a deep recession, activity in both the commercial and residential markets slowed more dramatically. Office vacancy rates increased significantly and downtown development came to a near standstill. All of this was reflected in the fourth City-wide revaluation which established values as of January 1, 1991 at $29.8 billion, an 18% decline from the prior year's total taxable value. This was followed with an 8.4% trending down for January 1, 1992 values to $27.3 billion.

As of FY94 the net effective tax rate of 2.47% was extremely close to the Proposition 2 1/2 ceiling.

As values remained level and then decreased, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY94 the levy increased each year by an annual average of 6.4%. This disparity (values down, levy up) reversed the previous tax rate trend: From FY82 to FY89 the tax rate had decreased every year due to values increasing faster than the levy; from FY90 to FY94 the tax rate rapidly increased. As of FY94 the net effective tax rate of 2.47% was extremely close to the Proposition 2 1/2 ceiling. Boston has the highest net effective municipal property tax rate in Massachusetts. Should the di-

Upon completion of the largest capital project ever planned by the City, Boston City Hospital is a far more efficient and modern facility.

rection of the real estate market (which is currently positive, albeit not fast growing) suddenly reverse again, then the City's current position at the 2.5% tax rate threshold has serious implications for the City's future ability to maintain the current level of services. (Figure 8.)



Overall Property Tax Rate
FY83 - FY94

Figure 8

Chapter 121A

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the state acts as the collector and distributor. In FY92 the City collected Chapter 121A, section 10 distributions of $32.2 million. In FY93 the amount declined to $27.6 million due to the Prudential Center development switching from Chapter 121A classification to normal Chapter 59 property taxation. This decline was more than compensated for in FY93 by the amount Prudential paid in property taxes. In FY94 and FY95, Chapter 121A revenues are forecast to come in at $23.7 million and $25.9 million.

The Chapter 121A legislation, passed in 1960, allows local governments, in cooperation with their redevelopment authorities, to suspend the imposition of property taxes at their normal levels on properties determined to be blighted in order to encourage redevelopment of such properties by special corporations organized under this legislation. (In 1960, Boston had gone through an extended period of little or no major new development.) The formula for the 121A, section 10 excise in-lieu-of-tax is the greater of: (a) $10 per $1,000 of the value established at the time in which the excise first becomes payable plus 5% of current gross income, or (b) the current tax rate times the average of the last three years' assessments for which the property was subject to local taxation (or the current assessment if that is less). During FY92, the state removed 121A excise tax receipts from the "cherry sheet," thereby distinguishing between local aid and state collection of a local revenue source.

Hospital Revenue

The City currently operates Boston City Hospital, a 356 bed acute-care hospital which has been fully rebuilt during the last few years. The City financed the renovation and new construction after securing a Federal Housing Administration loan guarantee in 1990. Upon completion of the largest capital project ever planned by the City, Boston City Hospital is a far more efficient and modern facility. Patients were moved into the new Boston City Hospital on January 29, 1994.

In addition, the City operates Boston Specialty and Rehabilitation Hospital (BSRH), a chronic care facility. BSRH's average daily number of inpatients is approximately 80. Another chronic care facility, Long Island Hospital, was closed near the end of FY91. Currently, Boston City Hospital accounts for over 90% of the City's hospital reimbursements. Over the years, both chronic care facilities' expenditures tended to exceed their reimbursements.

The largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care from the statewide free care pool. The second largest form of payment is Medicaid; the third, Medicare. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due

to the nature of Boston City Hospital's patient mix, nearly 80% of which is drawn from the hospital's surrounding lower income neighborhoods and which includes many uninsured and non-paying patients.

In FY91, FY92 and FY93 the City recorded reimbursements from the hospitals totaling $179.9 million, $168.2 million and $154.8 million. The high level of receipts in FY91 was due, first of all, to the significant payments to Boston City Hospital for settlements of prior-year Medicaid rates. These payments were partly financed by the state from debt issuance as the state attempted to catch up with several years of rate settlements. In addition, the normal stream of reimbursements to the chronic hospitals were supplemented by sizable Medicare settlement payments that were relatively unique.

Chapter 495 of the Acts of 1991, the most recent legislation governing statewide health-care reimbursement, moved Massachusetts decisively in the direction of market-driven pricing. Hospitals are allowed to set outpatient rates. For inpatient services, prices are capped within each diagnostically related group. Chapter 495 also converted the uncompensated care pool to a free care pool by eliminating payments to hospitals for bad debts. This allows Boston City Hospital to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as "bad debts." This, in turn, partially offsets the decrease in Boston City Hospital's traditional Medicaid rate.

The stream of Medicaid and uncompensated care reimbursements during FY92 was the slowest in years, especially in the latter half of the year. This was due both to a later-than-usual supplemental budget for the state's chronically underfunded Medicaid account and to slow implementation of Chapter 495 which significantly altered Boston City Hospital's revenue mix.

The City revised its accounting policy to a more explicit accrual basis that allowed late payments for services rendered prior to the end of FY92 to be credited to FY92. This effectively extended the fiscal year by two months for one year only. In FY93 the City again implemented an explicit accrual basis for crediting hospital receipts. In both FY92 and FY93 the City accrued in excess of $30 million. Due to the state finally fully implementing Chapter 495, Boston City Hospital's reimbursement stream has been stronger during FY94. Assuming this continues during the final quarter of FY94, the accrual will be significantly less than in the prior two years. In FY94 and FY95, the Department of Health and Hospitals expects to realize $163.4 million and $179.7 million in patients receipts.

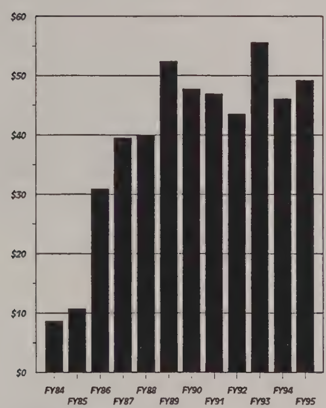
Excise Taxes

Motor Vehicle Excise. The City's motor vehicle excise receipts were $20 million, $18.9 million, and $18.9 million in FY90, FY91, and FY92. Car purchases slowed down dramatically during the 1990-1991 recession and during the extended periods of relatively slow economic growth that both preceded and followed the recession. Because the motor vehicle values upon which the 2.5% levy is applied are decreased annually based upon an aggressive depreciation schedule, it is not at all surprising for Boston and other municipalities to see a decline in this revenue item during a recession when fewer people are buying new cars.

In FY93 the City's motor vehicle excise receipts surged dramatically upward to $30.0 million. An aggressive effort to collect on prior year bills heavily impacted FY93 collections. The key component of this collection effort was linkage of payment of motor vehicle excise bills with renewal of driving licenses and automobile registrations by the Registry of Motor Vehicles. A similar linkage on parking fines had proven to be an effective collection tool several years prior. Furthermore, the FY93 receipts were also pushed upward by a delay in issuance of bills in FY92. This delay effectively pushed some of the payments from FY92 into FY93. In addition, as employment growth and consumer confidence have finally revisited

New England, albeit on a modest scale, more people returned to the market for new car purchases. The City's motor vehicle excise revenue in FY94 is projected to return to normal levels at $20.5 million. The local economic recovery and consequent increase in new car purchases is the underpinning for the FY95 increased projection of $21.5 million.

Room-Occupancy Excise. In 1985, state legislation was enacted authorizing local option excise taxes on room-occupancy rates and jet fuel. These taxes were the first new revenue sources available to the City since the motor vehicle excise was enacted in 1928. The Commonwealth collects these taxes and distributes them to the City. In their start-up years (initiated in FY86; first complete year of collection in FY87), the jet fuel and room-occupancy excises provided needed revenue growth to the City. (Figure 9.)



Excise Revenue
Millions of Dollars

Figure 9

The room-occupancy excise amounts to 4% of the total amount of rent for each occupancy (in addition to the existing statewide 5.7% excise). These receipts are driven by the fluctuations in room rates and the percentage of room-occupancy. Since the institution of the excise, relatively few hotel rooms have been added in Boston. The growth of this revenue source has mirrored the economy: there was modest growth during FY90-FY91, a major decrease in FY92, and recovery in FY93. Boston's occupancy and room rates are among the highest in the country. Healthy economic growth returned in the last quarter of 1992, and not surprisingly, the City's room-occupancy receipts—strongly affected by key discretionary spending areas such as tourism and business travel—recovered from the prior year's $1.8 million decrease. The City projected for FY94 $14.1 million in room-occupancy receipts in its revised projections last December. The improved economic outlook is the underlying assumption for the projected increase up to $15 million for FY95.

Jet Fuel Excise. In addition to the room-occupancy excise, the Legislature in 1985 enacted a local option excise on the sale of jet fuel at a rate of 5% of the average sales price, but not less than 5 cents per gallon. The City actually collected the greatest amount from this new excise in its first full year, FY87. One reason that the jet fuel excise has tended not to increase is that the 5 cents per gallon has generally been the operative rate, since the price per gallon has generally remained under one dollar. In other words, jet fuel prices do not have an impact on excise collections as long as the price has remained under one dollar. Another major factor which limits jet fuel excise growth is the increased fuel efficiency of commercial aircraft which use Logan airport. Because fuel is such a major portion of their expenditures, airlines are strongly motivated to invest in improving the fuel efficiency of their fleet.

In FY90 and FY91, jet fuel excise receipts totalled $13.2 million and $13.3 million. In FY92 and FY93 jet fuel receipts fell to $11.6 million and $11.4 million. As noted above, tourist and business travel to the region declined during the recent economic slowdown, contributing to the decreases for both the jet fuel and room-occupancy excises. Due to improvement in the economy, FY94 receipts are running ahead of the same year-to-date FY93 level. The City now expects

this revenue source to come in above the $11.4 million projected in December for FY94 and has budgeted $12.5 million for FY95.

Real Estate Excise. The City had been receiving a real estate excise tax (commonly referred to as the condo excise) since FY83. However, until FY90, these receipts were earmarked for the payment of the Funding Loan Act of 1982 bonds (commonly referred to as the Tregor bonds). Since the City completed payment on the bonds in FY90, the condo excise receipts have been deposited in the General Fund, but the returns are far less than amounts realized to pay off the Tregor bonds, which exceeded one million every year from FY84 to FY89. In FY91 and FY92 the City received $156,000 and $50,500. The decrease is due to the fact that a significant portion of units in the City have already been converted to condominiums, and to the general effect of a sluggish real estate market. In FY93 condo excise increased to $65,000. In FY94 the City expects to exceed its mid-year projection of $80,000. The City estimates it will receive $150,000 in condo excise receipts in FY95 as activity in the real estate market improves.

Departmental Revenues

Departmental revenues consist of approximately 120 miscellaneous accounts including such diverse revenue sources as health inspection fees, cemetery fees, parking fines, and interest income. In FY95 the City projects it will bring in $120.9 million in departmental revenues, 6% less than the amount projected in the FY94 revised estimates. For the first time since FY84, departmental revenue accounts for less than 10% of total General Fund revenues (in both FY94 and FY95). (Figure 10.)

The fee and fine levels for many departmental revenues are under the direct control of the City. For example, changes in the City's fee or fine structure can result from either administrative actions or a vote of City Council, unlike new tax options or local aid distributions, which require approval by the Legislature. The most recent package of fee and fine increases was proposed, approved, and implemented just prior to the beginning of FY91. Currently, the Office of Budget & Program Evaluation is beginning a review of fees and fines with proposed changes to be presented to City Council around the beginning of FY95. Preliminary review indicates that the amount of revenue resulting from the fee and fine increases will not be as great as in FY85 or FY90 when parking fine revenue accounted for the overwhelming portion of fee and fine increases.

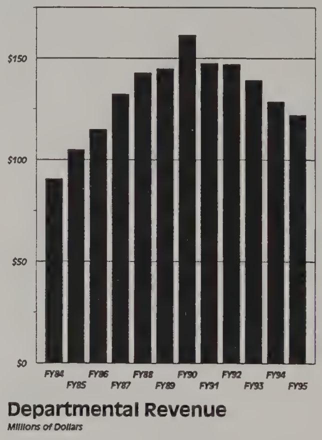
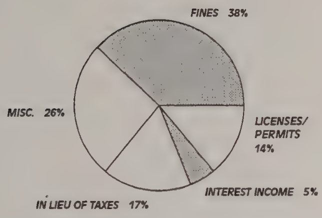


Figure 10

For the first time since FY84, departmental revenue accounts for less than 10% of total General Fund revenues.

Not under control of the City, however, is the level of economic activity that determines the number of permits or licenses or even fines that will be issued by the City. Recently, some of the largest departmental revenue accounts have dropped: interest income because of historically low interest rates; building permit fees because of a major lull in development, parking fines because of reduced employment and business activity downtown. Together, these three sources, plus payment-in-lieu-of-taxes, represent between 62% and 67% of departmental revenues in the FY91 through FY95 budgets. Each

of these categories are described in more detail below. (Figure 11.)



FY95 Departmental Revenues

Figure 11

Parking Fine Revenues. The City currently issues approximately 1.7 million parking tickets per year and has for several years had a high rate of collection on these tickets. Major factors figuring in the City's successful collection rate include non-renewal of violators' registrations and licenses by the state Registry of Motor Vehicles until penalties are paid, booting and towing of nonpayors, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars.

FY93 parking fine receipts totalled $47.7 million, $2.2 million less than their peak in FY91. The decrease since FY91 has been driven largely by a lower ticketing level which has occurred as the economic downturn has reduced the number of commuters, business travelers, and tourists coming into Boston which, in turn, reduces the number of violations. For example, it is estimated that there were 39,000 fewer jobs located in Boston in 1992 than in 1990. Consequently, parking lots are no longer as full and have actually lowered rates. FY94 parking fine receipts are not expected to make the projection of $45.4 million, revised in December from $48 million in the original FY94 budget submission. The FY95 projection of $43.5 million assumes a continuance of the historically lower issuance level of 1.7 million tickets.

Investment Income. Interest rates have remained very low, with the Federal Funds rate recently being raised twice by a quarter of a percent after over one year of hovering at a flat 3%. This recent rise is a conscious effort by the Federal Reserve Board to ensure that the revived economy does not restimulate inflation which has been relatively low the last few years. One consequence of the relatively low interest rates has been that the City's investment income has been depressed. In FY90, FY91, FY92 and FY93 the City realized $16.9 million, $14.5 million, $10.6 million and $8.5 million. In general, the City's level of investment earnings is a function of the prevailing interest rates and daily cash balances. On the one hand, the average daily cash balances have been strained by the budgeting of some of the City's reserve funds. On the other hand, a conversion to quarterly billing for the property tax and quarterly distribution for local aid—both beginning in FY92—has had a positive impact. The City will exceed its FY94 projection of $7.7 million, partly due to the crediting in July of approximately $4 million in interest income from segregated bond funds. Interest income for FY95 is expected to continue to reflect the low interest rates, resulting in income of $6.3 million. This amount includes an estimate of $1.5 million in interest income from segregated bond funds.

Payments-in-lieu-of-taxes. Receipts for payments-in-lieu-of-taxes over the last several years have been a stable source of revenue. Approximately 70% of this revenue comes from Massport and the voluntary Section 6 payments from Chapter 121A urban redevelopment corporations. Because both Massport and Section 6 payments are based on formulas that tie the payment to some measure of economic growth, these payments have experienced significant growth over the long-term, but less growth in recent

years. In recent years many non-profit entities have entered into new payments-in-lieu-of-taxes agreements with the City. These agreements include some of the major universities and hospitals located in Boston. The City recognized a one-time 49% increase in FY92 due to an additional one-time payment by the commercial portion of the Prudential Center to cover its last six months of 121A status prior to converting to normal Chapter 59 property taxation. The FY94 and FY95 projections of $20.6 million and $21.0 million are slightly less than the $21.5 million received in FY93 due to the exceptional amount ($1.2 million) received in FY93 for so-called "2C-in-lieu" payments i.e. partial year payments by properties switching from exempt to taxable status.

Building Permits. Projections of building permit revenue are difficult, since the unpredictable timing of large-scale projects can result in dramatic swings upward or downward. Building permit revenue totalled $8.1 million in FY90, $6.7 million in FY91, $9.1 million in FY92, and $8.8 million in FY93. Currently, the City projects $7.3 million in FY94 and $9.0 million in FY95.

Budgetary Fund Balance

Budgetary fund balance, also referred to as "free cash," is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Mass. General Law, and is administered by the Massachusetts Department of Revenue's Bureau of Accounts.

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. By balancing expenditure reductions with drawing down of available reserves, the City was able to mitigate reductions in basic services as local aid dropped. However, due to a number of factors, this option is not available for the City in the near-term.

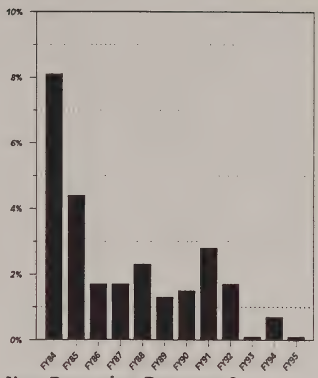
State law permits two ways of certifying free cash. The first method is to add accumulated surpluses and subtract accounts receivable as of the last day of the fiscal year. Any resulting positive balance is generally available for appropriation during the subsequent fiscal year. The second method is to update the City's property tax receivables during the course of the year (up through March 31st). Outstanding prior year property tax billings collected during the current year are netted into an adjusted free cash balance, which if positive, is available for appropriation until June 30th.

The City had an operating deficit for ten straight years between FY76 and FY85. In all of those years the City also had a negative free cash balance. The City's fiscal turnaround during the 1980's was first fully confirmed with its first operating surplus in over a decade in FY86. The City has had small operating surpluses ever since. Beginning with FY86, the June 30th free cash balance was positive for five straight years, thereby freeing up funds for appropriation in the subsequent year budgets. The City appropriated from budgetary fund balance $4.0 million for FY87, $13.4 million for FY88, $15.0 million for FY89, $20 million for FY90, $38.6 million for FY91, and $10.9 million for FY92.

Several factors influenced the decision to make these appropriations of budgetary fund balance: 1) Fund equity had built up steadily over a long period of time, turning positive in FY83 and increasing every year through FY90; 2) A very high rate of collection on current year property taxes had been achieved and subsequently sustained over several years; 3) Boston had exceeded its revenue estimates from FY85 through FY90; 4) Personnel spending continued to be successfully controlled through a quarterly allotment system mandated by Mass. General Law; and 5) The City had reduced spending and personnel in many areas to adjust for significant cuts in local aid.

The budget option of drawing down of available reserves from fund balance is not available to the City in the near-term.

Due primarily to the necessity of using the maximum allowable amount of available fund balance in order to offset local aid reductions in FY90 and FY91, the City's June 30, 1991 free cash balance was negative for the first time since 1985. Due to the further appropriation of $10.9 million in FY92 made available from the March 31, 1991 free cash update, the City's free cash balance has remained negative. The June 30, 1993 certification was a negative $23.4 million. Other factors which have affected the negative free cash calculations were the small size of the FY91, FY92 and FY93 operating surpluses, and a greater amount of properties being reclassified into tax title without a concomitant increase in receipts for tax title properties. The City does not currently anticipate being able to appropriate additional funds from free cash in the near future.



Non-Recurring Revenue & Appropriated Free Cash
As A Percentage of Total Revenue FY84 - FY95

Figure 12

Non-Recurring Revenue

Over the course of five budgets (FY84-FY88), non-recurring revenues were used to offset both the City's final cut to the property tax levy under Proposition 2 1/2, and to relieve the City from a string of operating deficits going back to FY76. During that period, the five year combined total of prior year deficits (both operating and overlay), plus the FY84 levy reduction, equalled approximately $185 million. During that same five year cycle, the City supported its budgets with $166 million in non-recurring revenues. The four largest categories of non-recurring revenues were: 1) $40.8 million in FY86-FY88 from excess pension fund interest, a transfer allowed by a state law which fully phased out such use of excess interest as a budgetary offset from FY89 onward; 2) the sale of garages, which produced $40.7 million in FY84 and FY85; 3) $34.1 million in disproportionate assessment funds in FY84; and 4) $19.6 million in excess reserves for abatements in FY84. These four items constitute over four-fifths of the FY84-FY88 non-recurring total. (Figure 12.)

Following a three year hiatus of the use of non-recurring revenue to support the operating budget, the Administration's FY92, FY93, FY94, and FY95 budgets are supported by $12 million, $1.8 million, $9.3, and $0.8 million in sale of property receipts. All of the FY93, FY94, and FY95 amounts and all but $2 million in FY92 will have been proceeds from the sale of land related to the Central Artery project. As a matter of prudent fiscal management, it has been the Administration's policy to spread the incorporation of Central Artery sale proceeds into General Fund revenue over several years in order to minimize any resulting structural gap between the City's recurring revenues and expenditures. It is believed that this limited use of non-recurring revenue, along with stringent control of spending, will be sufficient to keep the City's budget in balance over the next several years. However, use of non-recurring revenue must not be seen as a permanent alternative to a more diversified and growth oriented revenue structure for the City.

Acct #	Account Name		FY93 Actuals	FY94 Budget	FY95 Budget
	Property Tax				
	Real & Personal Property Tax		624,662,194	660,243,604	685,749,694
	Overlay Reserve		(33,999,666)	(35,044,328)	(34,902,076)
		Subtotal	590,662,528	625,199,276	650,847,618
	Excises				
	Motor Vehicle Excise		30,032,853	20,500,000	21,500,000
011-0129	Hotel/Motel Excise		14,063,809	14,100,000	15,000,000
011-0130	Jet Fuel Excise		11,387,205	11,400,000	12,500,000
011-0140	Condo Excise		65,000	80,000	150,000
	Boat Excise		21,245	20,000	20,000
		Subtotal	55,570,112	46,100,000	49,170,000
	Chapter 121A				
011-0167	Urban Redev.-Chap. 121a Sec. 6		8,395,959	7,500,000	7,500,000
011-1013	Urban Redev.-Chap 121a Sec. 10		27,641,033	23,700,000	25,900,000
		Subtotal	36,036,992	31,200,000	33,400,000
	Fines				
011-0501	Parking Fines		47,690,746	45,400,000	43,500,000
	District Court Fines		2,307,652	2,490,300	2,231,550
011-5104	Code Enforcement		141,140	100,000	100,000
		Subtotal	50,139,538	47,990,300	45,831,550
	Licenses & Permits				
011-0211	Building Structures & Permits		8,832,324	7,300,000	9,000,000
011-0215	Street & Curb Permits		1,019,634	1,150,000	1,150,000
011-0221	Health Inspections		880,541	850,000	1,000,000
011-0222	Alcoholic Beverages Licenses		2,136,600	2,150,000	2,180,000
011-0224	Entertainment Licenses		433,730	425,000	450,000
011-0225	Police & Protective Lic & Permits		473,013	380,000	425,000
011-0229	Other Business Licenses & Permits		786,070	750,000	800,000
011-0235	Cable Television		1,443,112	1,550,000	1,625,000
	Other Licenses & Permits		347,671	330,000	360,000
		Subtotal	16,352,695	14,885,000	16,990,000
011-7151	Interest On Investments		8,507,281	7,704,142	6,250,000
	Payments-in-Lieu-of-Taxes				
011-0169	Massport-in Lieu		6,017,739	6,017,739	6,017,739
	Other-In Lieu		7,060,535	5,801,300	6,569,427
		Subtotal	13,078,274	11,819,039	12,587,166
	Miscellaneous Dept Income				
011-3105	Vital Statistics		801,253	800,000	800,000
011-3109	Liens		662,380	600,000	720,000
011-3120	City Clerk - Fees		347,084	300,000	350,000
011-3135	Rent Equity Services		993,866	900,000	950,000
011-3137	Public Health Support Payments		2,000,001	500,000	1,600,000
011-3202	Police Services		601,257	624,905	1,000,000
011-3211	Fire Services		1,491,147	1,350,000	1,500,000
011-3301	Parking Facilities		1,316,724	1,400,000	800,000
011-3311	Street-Walk & Curb Repair		2,994,355	2,300,000	2,300,000
011-4002	Tuition & Transport - Schools		509,106	500,000	500,000
011-7117	Workers' Comp. Reimbursement		1,135,513	1,000,000	1,150,000
011-7119	Settlements		523,144	250,000	100,000
011-7131	Pensions & Annuities		3,125,036	2,200,000	2,200,000
011-7132	Fringe Benefits & Indirect		928,719	700,000	700,000
011-7155	Prior Years Reimbursements		1,053,953	979,676	250,000
011-8000	Private Details - 10% Administration		1,611,585	1,600,000	1,600,000
	Other Misc. Dept. Income		1,620,735	1,771,295	1,248,600
		Subtotal	21,715,858	17,775,876	17,768,600

Acct #	Account Name	FY93 Actuals	FY94 Budget	FY95 Budget
	Penalties & Interest			
011-0133	Penalties & Int. Property Tax	1,640,041	1,600,000	1,400,000
011-0134	Penalties & Int.: Motor Vehicle Tax	2,913,394	2,703,874	2,250,000
011-0136	Penalties & Int.: Tax Titles	4,191,787	4,000,000	3,800,000
	Subtotal	8,745,222	8,303,874	7,450,000
	County			
011-5106	Registry Of Deed Fees	1,611,936	1,580,000	2,070,000
011-5111	New Court House	0	1,320,000	165,555
011-5112	County Deeds Excise	27,312	0	0
	Other County Revenue	28,340	50,000	30,000
	Subtotal	1,667,588	2,950,000	2,265,555
011-2503	Parking Meters	9,000,000	9,000,000	3,500,000
011-2502	Cemetery Trustee	1,418,076	600,000	600,000
	Health & Hospitals			
011-3401	City Hospital	146,751,632	149,400,00	166,450,000
011-3421	Mattapan	8,031,703	13,980,000	13,240,000
	Subtotal	154,783,336	163,380,000	179,690,000
	State Distributions			
	R.e. Abates & Elderly Exempts	1,399,283	1,392,053	1,295,896
011-1111	State Lottery Local Aid	27,232,544	27,232,544	32,776,380
011-1112	Highways - Local Aid	828,848	836,476	836,476
011-1114	Veterans Services - Local Aid	900,350	1,239,438	900,000
011-1015	State Owned Land	280,048	242,711	242,711
011-1306	School Aid Chapter 70	44,990,828	66,602,012	75,478,012
011-1116	Local Aid-Additional Assistance	206,638,214	206,638,214	206,638,214
011-1105	Municipal Stabilization Aid	0	1,886,059	0
011-4103	Library Of Last Recourse	2,502,116	0	0
011-1119	Racing Taxes	360,827	240,552	189,451
011-1301	School Construction - State	13,285,197	13,550,767	11,600,000
011-1311	Transportation Of Pupils	9,992,164	9,067,770	8,746,993
	Subtotal	308,410,420	328,928,596	338,704,133
011-1115	Reimbursement Teachers' Pensions	27,184,374	28,222,746	30,500,000
011-2504	Budgetary Fund Balance	0	0	0
011-2500	Sale of Property	1,764,844	9,321,052	800,000
	Grand Total	1,305,037,138	1,353,379,901	1,396,354,622

Transition

Transition

The FY95 Operating Budget...building on recommendations from the Mayor's Transition Committee, sets up the budgetary and reporting structure to transform Boston's government.

Introduction

In November's election of Thomas M. Menino as Mayor of Boston, the City began a new era. The FY95 Operating Budget represents Mayor Menino's directives for a "new" government, one that upholds high standards of responsibility, accountability, and performance. It represents the strategic plan for creating a municipal government that is effective—producing the desired results, and efficient—fully utilizing the available resources. The budget document, building on recommendations from the Mayor's Transition Committee, sets up the budgetary and reporting structure to transform Boston's government.

Mayor Menino's goal of establishing an effective government requires that employees and departments focus on satisfying Boston's customers, those individuals who live and work in the City of Boston. A customer-focused government strives to understand the needs of its customers and insures that its service delivery systems meet these needs. It is a government that works hard at knowing what people want from their Public Works or Parks and Recreation Departments and sets up the programs to meet these needs. The focus on customer satisfaction requires outcome-oriented measures and thinking, which are the basis for the FY95 Budget and Performance Goals Process.

Given limited resources, a high quality government must also be an efficient government. City administrators must continually strive to do more with less. In Boston this has been the situation for the last four years, and this year continues the trend. Between FY89 and FY94, Boston's total nominal spending increased by only 2.6%. In real terms this translates into a 15% decline. As a result, the City has experienced a cumulative $201 million reduction in departmental spending.

The continuing decline in the number of City employees is evidence of the budget constraints the City has faced. There were 2,183 fewer City employees on April 1, 1994 than on January 1, 1989. The Transition Committee recommends a further 10% reduction of the City workforce, excepting staffing levels in Public Safety and teaching positions in the Boston Public Schools, during the course of the Mayor's Administration. Consequently, Transition Committee recommendations focused on improving customer satisfaction through increased productivity driven by better use of technology and improved organization.

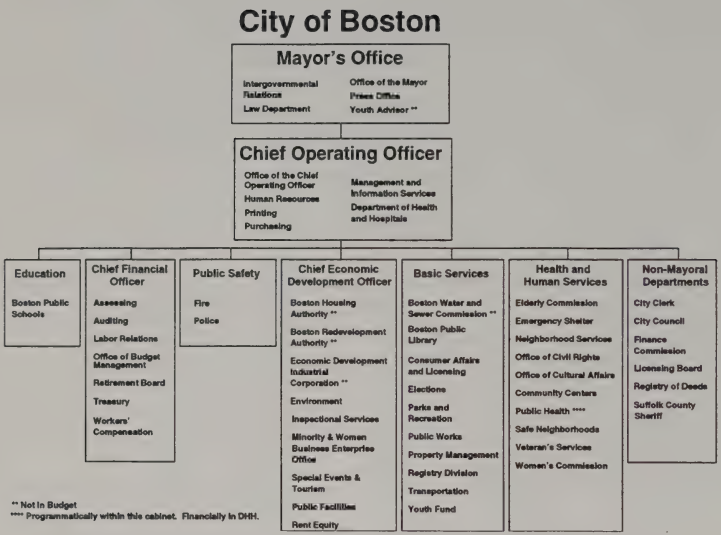
Recommendations summarized in the following paragraphs and detailed in the FY95 Budget focus on three elements for improving how government works—organizational structure, outcome-driven budgeting and performance, and increased competition. These themes repeat themselves in the reorganization of City government and the detailed missions and recommendations for each cabinet and department.

Organizational Structure

The introduction of a new organizational structure initiates a new way for the City of Boston to do business. The previous structure of over 50 independent departments, commissions, and agencies resulted in fragmented and uncoordinated service delivery that was not conducive to producing efficient and responsive government services as mandated by Mayor Menino.

City government is currently being reorganized into functional cabinets administered by a Chief Operating Officer. The cabinets are designed to improve coordination, encourage teamwork, and enhance accountability. The new organization provides the infrastructure for outcome-driven performance by combining like functions and identifying one responsible individual.

The newly structured government consists of seven cabinets: Chief Operating Officer; Education; Public Safety; Economic Development; Basic Services; Health and Human Services; and the Chief Financial Officer. The cabinet structure clearly articulates the major functional responsibilities of City government, facilitating further reorganization and the elimination of duplication and waste. It also identifies the lines of responsibility and authority and in this



way enhances accountability by clearly identifying for the public the accountable individual.

Representing the Mayor and enacting his vision are the duties of the newly restructured Mayor's Office. The Offices contained in the Mayor's Office represent the Mayor and the City in legal matters, public relations, and intergovernmental relations. They carry forward the policies and direction of the Mayor and communicate these policies to City managers and the general public.

The key individual responsible for the daily administration of the entire City government and directly overseeing management and information, human resources, printing, and purchasing services is the Chief Operating Officer (COO). The COO, reporting directly to the Mayor, will be responsible for ensuring that the performance of City managers at all levels is of high quality, of high ethical standards, financially prudent, and responsive to the citizens of Boston.

Within this cabinet, the revamped Management and Information Services Department will play a critical role in developing new management systems and analyzing management information. A new Management Office program will also oversee customer satisfaction surveys and implement management initiatives recommended by the Transition report. In addition, this Management Office will structure and staff an academic-based "think tank" for City Hall, coordinating research and analysis projects with major area colleges and universities.

The Chief Operating Officer will also have responsibility for the Department of Health and Hospitals and its transformation to a more autonomous structure better suited to compete in the changing health care environment. The successful restructuring of the governance of Boston City Hospital to an authority or other independent entity will have a major long-term impact on the way the City delivers health care services. To ensure BCH's ability to efficiently deliver quality care,

the City must level the playing field with other nonprofit hospitals and establish a new relationship between the City and the hospital. The new relationship must foster the necessary cultural and organizational changes while maintaining the City's commitment to accessible quality care for all Boston residents.

Additionally, the City's financial investment must be protected. The transition must be managed in a manner that recognizes the influence of BCH's financing on the City's financial position. The Chief Operating Officer is charged with balancing the City's health policy goals with its financial objectives and ensuring BCH's financial viability into the next century.

The Education Cabinet is responsible for managing the Boston Public School system. This cabinet, chaired by the Superintendent of Schools, is focused on fully implementing a school-based management philosophy that assumes parents and teachers play a critical role in setting educational policy at the school level, and that principals have management and budgetary authority to implement this policy direction. The Cabinet's charge also includes the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee the best possible resources are available to Boston's children.

Enforcing the laws and ensuring the physical safety of Boston's residents, workers, and visitors is the mandate of the Public Safety Cabinet. Jointly managed by the Police Commissioner and Fire Commissioner, this cabinet will develop a Citywide service delivery philosophy that addresses the specific needs and concerns of Boston's communities. Meeting these needs will entail a review of opportunities for consolidated and shared resources to provide more effective and efficient service delivery.

The Chief Economic Development Officer is accountable for the planning, development, housing, and marketing functions of the City. The cabinet includes the Boston Redevelopment Authority(BRA), the Economic Development and Industrial Corporation(EDIC), the Boston Housing Authority(BHA), a reconfigured Public Facilities Department(PFD), the Environment Department, the Inspectional Services Department, the Office of Minority and Women Business Enterprises(M/WBE), the Rent Equity Board, and the Office of Special Events and Tourism. PFD will be restructured to include the Property Management Division that was previously part of the Real Property Department, and PFD's responsibilities for capital budgeting and alteration, repair, and protection of municipal buildings were reassigned. Through this reconfiguration, the City can provide a coordinated and improved environment for private investment. Additionally, the City can develop a comprehensive and consistent policy toward housing development and the marketing of the City. The reorganization will also create opportunities for improved coordination of City planning efforts.

Boston's infrastructure and direct service activities are the domain of the Basic Services Cabinet. The mission of this cabinet is to ensure that the City of Boston's physical infrastructure is safe, clean accessible, attractive and in good operating condition. The Public Works Department, the Parks and Recreation Department, the Boston Water and Sewer Commission (BWSC), the new Property Management Department, the Transportation Department, the Election Department, the Registry Division, the Office of Consumer Affairs and Licensing, and the Boston Public Library (BPL) are included in the Basic Services Cabinet. Additionally, the Basic Services Cabinet Officer will serve on the boards of BWSC and BPL, to improve service delivery coordination. The Cabinet will focus on improved customer-focused service delivery. Its charge includes investigating opportunities for applying technological innovations, like ATM machines and 1-800 telephone numbers, or regional partnerships to reduce costs or improve the delivery of basic services.

The Health and Human Services Cabinet, responsible for providing health and other supported services for all of

Boston's citizens, includes the Office of Cultural Affairs, Community Centers, and the public health programs of the Department of Health and Hospitals. The Cabinet will also include the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, and the Veterans' Services Department.

This Cabinet will also include a new office, the Office of Civil Rights, comprised of the Fair Housing Commission, the Commission for Persons with Disabilities, and the Human Rights Commission. Finally, a restructured Office of Safe Neighborhoods will be responsible for Boston Against Drugs and Healthy Boston activities.

The Chief Financial Officer is responsible for the financial functions of the City including Assessing, Auditing, Treasury, Retirement Board, and Labor Relations. The new Office of Budget Management will be responsible for both capital and operating budgets. An integrated financial Cabinet encourages communication and coordination of the City's financial functions and provides other City departments with enhanced financial services.

The realignment of service, personnel and financial resources into cabinets sets the stage for further reorganizations to eliminate duplication and streamline operations within each cabinet. One example, the establishment of a Property Management Department, with responsibility for the management of all City facilities, will expedite the consolidation of the management of these facilities. Previously fragmented under several City departments' jurisdiction, the consolidation will improve utilization, maintenance and management of City facilities.

Outcome Driven Budgeting and Performance

A goal of the Transition Committee was to review operations for opportunities to improve City government, to guarantee that Boston receives the best possible performance from its government. A major element of this effort at performance driven administration is the refocusing of City government on outcomes and results. This new focus assures Boston's citizens that government will be directed on achievement and continually improving service delivery.

The FY95 Budget and Performance Goals Process sets the stage by establishing for each department the necessary information to define and measure successful operations. The FY95 Budget contains specific goals for each department and more detailed performance trend data.

The process of reassessing goals and defining outcomes, being carried out City-wide as an integral part of the budget process, is also critical to specific department initiatives. For example, the Basic Services Cabinet is implementing performance-based standards into daily operations as a way of improving customer satisfaction. The mission of the Basic Services Cabinet ensures that fundamental and essential services are rendered in an effective and efficient manner.

The City is preparing to conduct an operations audit of the Fire Department. A key element of this audit will be a review of operations, with the goal of defining a vision for the Department for the twenty-first century. A changed environment, caused by improved building codes and fire prevention education, necessitates a reexamination and redefinition of the Department's role in the delivery of public safety services and the role of individual firefighters in the face of changing community needs.

The goals of community policing, prevention, and responsiveness to community needs require the Police Department to develop new methods for measuring results and outcomes. The Department's ability to respond to community needs and concerns and to ensure efficient implementation of new policing strategies designed to address these needs is dependent on developing appropriate measures of success.

The Management and Information Services Department, within the Cabinet of the Chief Operating Officer, will bring together systematic data collection and information with a focus on problem

A major element of this effort at performance driven administration is the refocusing of City government on outcomes and results.

By introducing competition into City government, the City is looking to enhance its service delivery and improve customer service.

solving. With the redesign of the information systems function there is an opportunity to focus on planning and analysis as the first step in the development of a comprehensive information system strategy for the City. The Office will focus on turning performance data into management information, and using this information and customer satisfaction data as the basis for providing technical assistance to solve management problems.

To support these efforts the City is initiating a Productivity Investment Fund that will provide funding for specific projects that enhance productivity or generate new revenue. Given the structure and timing of the City's budget process it is often difficult to provide incentives for productivity improvements. A separate fund will allow department managers, who are often the most informed to propose new initiatives, to pursue funding for projects or technologies that will improve their operations. By funding specific projects the City can design proper monitoring and evaluation tools necessary to capture savings.

Increased Competition

By introducing competition into City government, the City is looking to enhance its service delivery and improve customer service. In FY95 there are two main ways the City of Boston is using competition to provide more efficient service delivery. First, as a major employer or purchaser of services the City of Boston is developing and taking advantage of its competitive position. By preparing to publicly bid services previously awarded without an advertised bid process, and improving existing bid processes, the City will increase its service delivery options.

The City will be more aggressive in its use of the competitive bid process to secure various financial services. Boston recently issued over $86 million of advance refunding bonds through a competitive sealed-bid process. The City is currently preparing specifications to competitively bid its bond counsel, financial advisor, and independent auditor services. Competitive bids will assure the lowest possible cost for these services.

Through the competitive bid process the City has also decreased administrative costs and duplication of providers, and is providing to City employees enhanced health benefits without a price increase. By carefully specifying the City's needs and focusing on the desired outcomes, the City projects a savings of over $2.5 million in FY95. Redesigned bid documents focused on analyzing benefit structures, reviewing managed care strategies, and examining utilization patterns to provide the necessary information to improve service offered to City employees.

The City is also preparing requests for proposals to provide services to evaluate the best way to deliver workers' compensation services. The City currently spends over $37.4 million a year on resolving cases of employees injured-on-the-job. Supervised by three state agencies and managed by five City departments, the management is fractionalized and redundant, and the process convoluted. In its request for proposals the City is looking for ways the process can be redesigned or administered to function more efficiently.

Reorganizing the bidding process for delivering rubbish collection and recycling services for FY95 will allow Boston residents to receive better services with minimal cost increases. By consolidating districts and integrating BHA Housing Communities into City collection routes, the City can take advantage of the savings vendors achieve through better utilization of resources and economies of scale. Revising the bid process to scatter the opening of bids encourages competition between vendors by providing them with more information and allowing them to refine their prices based on their competitors' actions. The result for Boston residents is enhanced service, particularly recycling, without an increase in cost.

In all these efforts the City Administration is searching for ways to improve its operations. The private provision of services requires balancing the City's need to provide quality services for the long

haul, a goal not always compatible with contract services, with short-term cost savings.

The second element in the Menino Administration's new focus on competition is a re-evaluation of City service provision systems using a new competitive model. This competitive model doesn't necessarily mean privatization, although it might. However, department heads will need to keep asking whether the City can provide a service for as low a cost as a private provider; and if not, why not. If the City cannot become equally efficient, departments will be required to articulate why the public is better served by keeping the work "in-house."

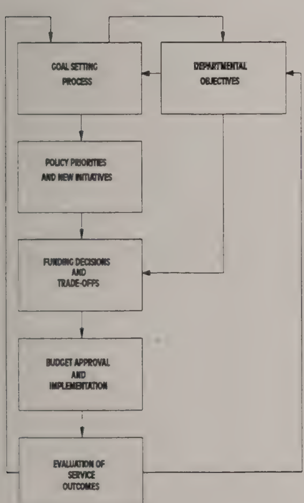
FY95 Budget & Performance Goals

The FY95 Budget and Performance Goals Process

"In the past, performance has been judged by how well a department stayed within its budget or by its level of productivity. Under my administration, performance will be measured by outcome."

Mayor Menino, Jan. 25, 1994

HOW THE PERFORMANCE GOALS PROCESS FITS INTO THE BUDGET PROCESS



Introduction

Performance, customer satisfaction, and government responsiveness are the cornerstones of Mayor Menino's transition government. City government is being redesigned to guarantee results and outcomes, and to provide Boston residents with high quality, cost effective service. Managing in this new context requires budgeting and information systems that support and reinforce these objectives.

Attaining the Mayor's goals of improved customer satisfaction and enhanced government responsiveness to citizen needs requires a budgeting and performance system that assesses the City's performance. The "new and improved" FY95 Budget and Performance Goals Process integrates the previously distinct but coordinated budgeting and goals processes, into one process that focuses on linking budgets with measurable outcomes. The FY95 process stresses results and performance; addressing citizen concerns about what goods and services are being provided, and whether these services are being provided efficiently and effectively. The revised process provides the Mayor and City managers with the necessary foundation to reassess City priorities and establish new goals.

One product of the City's program budgeting and performance monitoring system is a strong foundation of basic service level information. This provides a substantial base of information for understanding the costs and goals of City services including both detailed spending information and service levels for all City departments. The system addresses what goods and services the City has provided and what will be provided during the next fiscal year.

To address the Mayor's focus on customer satisfaction and accountability requires evaluating how these services are provided and the quality of services provided. This entails an emphasis on identifying appropriate methods for measuring the success or failure in meeting goals or attaining the desired outcomes. It also means tracking and monitoring a department's performance over time and using this information to reassess operations.

Providing this information in an integrated and coordinated process is the first step in fostering accountability and improving the management of City government. A revised budget and performance system, focused on identifying and measuring outcomes, provides the necessary information for the Mayor and managers to effectively and efficiently manage City services.

The system is designed to complement the reorganized cabinet structure by providing clearly defined outcomes for Cabinet heads to accomplish and be held accountable for achieving. Outcomes identified at the cabinet level are reflected in the key measures that departments will operationalize and report on in FY95.

Goals of the FY95 Performance Goals Process

Focusing on priorities and outcomes—what is really being bought with the resources supplied—is the purpose of the FY95 Budget and Performance Goals Process. Three critical actions, identify, measure and monitor, are the basis for a comprehensive budget and evaluation system designed to enhance government service delivery. First, programs and priorities are defined and identified through the combined efforts of the Mayor's Office, OBPE and departments. Second, appropriate methods to measure the relative success or failure in meeting these objectives are established, and the necessary funding allocated. Third, the Mayor, cabinet heads, and department managers monitor their actual performance and adjust their operations to ensure that the promised services are being delivered at the promised price.

The FY95 Budget and Performance Goals Process has the following goals:

- *to increase the Mayor's Office's participation by soliciting the involvement of the Mayor's Office in the discussion and moni-*

- *toring of department outcomes and performance;*
- *to develop appropriate outcomes that increase accountability and lead to advances in service effectiveness and efficiency; and,*
- *to increase the use and acceptance of the system by departments by linking the decision-making and the performance indicators.*

The enhanced role of the Mayor's Office is critical to the success of the Performance Goals Process. Mayor's Office staff set policy and establish priorities for all City departments. They identify City-wide goals stressing improved customer satisfaction and service delivery. In a fiscal environment of limited resources, it is a Mayoral responsibility to balance competing goals, agendas and tradeoffs. To ensure accountability and government effectiveness, Mayor's Office staff must monitor the accomplishment of key outcomes and review with cabinets and departments their performance to date.

The Process

The FY95 Budget and Performance Goals Process incorporates budgeting and goal setting into one integrated process. Departments are asked to establish the best measures of program performance and commit to tracking and explaining initiatives and activities underway.

Step 1. Identifying Departmental Objectives

The first step in the process is the department's definition of a clear set objectives. Objectives, defined as the result of the department's activities, address the charge of the department. This first step is critical since it defines the department's sense of mission in terms of what it anticipates will be the result of its daily operations.

For each objective the department must identify one key measure of the success in fulfilling its mission. These outcome measures provide the basis for monitoring the department's performance in the future. The department reports any measurable activities that support the objective or further illustrate the program's effectiveness.

Step 2. Mayor's Office Review and Direction

The next step is the review by the Mayor's Office of the suggested objectives, outcomes, and measures. At this critical stage the Mayor's Office defines City-wide priorities and sets new policy directions. The Mayor's Office review is focused on defining a measure of success or level of achievement that is expected from the department during the next fiscal year.

Cabinet goals are also established integrating the Mayor's Office priorities and direction. These objectives are stated as broad, long-term, policy directions for Cabinet Heads to implement. These objectives filter down to the departments as part of their specific outcomes to be achieved through coordination with other departments, or as a focus on a particular policy issue by the Cabinet Head. In addition to the specific policy directives, all Cabinets are directed to:

- *ensure that residents have maximum access to City government and are satisfied with City services by meeting with, surveying, and responding to residents on a continual basis;*
- *actively pursue opportunities for cooperation and teamwork across City departments to solve problems or improve service; and*
- *strive to develop a professional, qualified workforce that is representative of the diversity of the City in order to achieve the high standards of productivity and efficiency set for every program in every department.*

Step 3. Budget Preparation

The third step requires departments to prepare budgets within the targets established to accomplish the specific departmental outcomes and goals that have been identified. Department managers must determine what level of service can be supported with the resources provided—whether two or ten special events can be supported, for example.

Identifying Objectives

Example: To develop a "one-stop" special events logistics center to ensure all permits are in place and services are coordinated.

Identifying an Outcome Measure

Example: All permits in place within 30 days prior to an event.

Key Goals for Cabinets

Example: To promote Boston as a vibrant city in which to live, work, visit, and play, and to coordinate the efforts to attract and host events adding to the quality of life.

Reflecting Funding in Service Levels

Example: To add two City-wide events reflecting cultural diversity.

Department Monthly Reports and Mayor's Office Review of Outcomes

Example:

	Level Promised	Level Achieved
Permits in place within 30 days	100%	95%

Based on historical information, departments define baselines, identify service trends and set specific measurable levels to be accomplished. This process includes adjusting amounts budgeted for programs, redesigning processes to increase productivity, or increasing or decreasing programs to adapt to the new priorities.

City-wide management goals of decreased abuse of absenteeism, increased number of vendor payments made within twenty days of invoice date, and decreased number of days lost to on-the-job injuries are integrated into the performance measures for each department.

Step 4. Finalizing Mayoral Decisions and Performance Levels

With the information on trends in services, resources, and Mayoral initiatives, changes to target budgets are prepared for final Mayoral approval. By developing "decision packages" or service bundles the department answers the question of what services can be bought for what amount of money. Resources must then be juggled among competing priorities to try to maximize the outcomes desired.

The performance-based budgets, including detailed City-wide and departmental objectives and outcomes, are presented to the City Council for approval. With the approval of the budget by the City Council, the Mayor has committed to provide to the citizens of Boston a set bundle of services.

Step 5. Budget Approval and Implementation

After the approval of the budget, but before the beginning of the new fiscal year, July 1, departments prepare to operationalize their commitments. Discussion at this stage focuses on adapting department operations to accomplish new outcomes and maintaining budged levels of service.

Starting July 1, departments will report monthly on actual performance in achieving outcomes. Monthly reporting, focused on tracking services that have been provided against the level of service promised in the budget, begins an ongoing feedback loop necessary to promote accountability. The information provided in these reports will be the basis for the Mayor's Office review of the department's performance on key outcomes. This review and follow-up by Mayor's Office staff will assure Boston residents effective and efficient delivery of City services.

Summary

Providing effective and efficient government is the foundation of Mayor Menino's agenda. The bricks and mortar of this effort is the budgeting and performance goals system implemented to develop the FY95 operating budget. This information, with its focus on identifying, measuring, and monitoring results and outcomes is critical to guaranteeing Boston residents high quality and effective government.

Financial Management

Financial Management of the City

Boston must affirmatively tackle the financial challenges ahead.

Managing the City's finances is both a strategic and operational challenge. Strategically the finances must be managed to accomodate fluctuations in the economy and resultant changes in revenues. Operationally the financial management of the City means having clear financial goals, policies, and structures to implement the strategic direction.

Strategic Financial Management

The City must constantly work to maintain a healthy financial base from which to support City services in a way that reflects mayoral priorities. This objective is reflected in balanced budgets, new financial management systems, aggressive efforts to secure sound recurring revenues, and responsible spending reductions in light of revenue cuts. As Boston faces its fiscal future it must affirmatively tackle the financial challenges ahead.

Over the last four years the region-wide economic slump and consequent change in the state's local aid policy have caused Boston great fiscal stress. This financial stress has meant significant service reductions measured by everything from the speed of issuance of birth certificates to how often trash containers in parks are emptied; from the number of police officers on walking beats to the number of firefighters available for fire prevention assignments.

This financial stress has also created a management challenge to maintain balanced budgets and stable credit ratings through better management systems, a leaner work force, and focus on key public safety and education priorities.

Fortunately, the City's bottom line has stabilized. Boston is now in a better position to act affirmatively to control its financial prospects, though there are some ominous clouds on the horizon. But there is the need to do more. The following six steps are key in order to maintain fiscal solvency over the next four years.

Manage even better and smarter. City expenditures have grown by only 1% annually since FY89. In real dollars, the City's operating budget has increased by only 4% over the last ten years. Indeed, the workforce for the City of Boston has shrunk by 1,369 positions over the decade. Unfortunately, because these steps have already been taken, further management improvements are an even greater challenge. To meet this challenge the City must:

- *Ensure that it has skilled managers to lead and supervise the workforce;*
- *Evaluate the current civil service system and find better ways to fairly hire, manage, and promote the most skilled employees; and*
- *Work with City labor unions to ensure labor agreements that reflect 21st century workplace realities.*

Rethink, reorganize and consolidate City government. The new cabinet structure is a first step in reshaping City government to reflect the real needs of our businesses and citizens in the coming years. Holding each cabinet officer responsible for finding better, less expensive ways to meet these needs is the next assignment. Several specific initiatives have already begun.

- *A thorough audit of the Fire Department operations.*
- *Judging efficiency using a new competitive model. A competitive model doesn't necessarily mean privitization—although it might. The City must determine if it can provide a service for as low a cost as a private provider.*
- *A singular example of this new competitive standard is the plan to create a separate authority to operate Boston City Hospital. Simply put, Boston can no longer afford to subsidize an inefficient hospital operation. But there is still a clear and compelling need to assure that all our residents have access to needed medical care. A new structure to provide that assurance is fundamental to Boston's future fiscal solvency.*

Maintain Boston's physical infrastructure and expand capital investment in areas that improve operational efficiency. Schools and fire stations stabilize and anchor residential neighborhoods. Additional capital investment strengthens these anchors. But capital investment can also be a vehicle for improved service delivery efficiency, while reducing demands on the operating budget. The City must also take a close look at its technology needs and investments

in technology to improve operating efficiency.

Think more strategically about Boston's role in economic development. The City must determine the best way to encourage the businesses and jobs that enhance Boston's economic vitality. The Boston Redevelopment Authority (BRA) plays a key role in this planning and that role may be threatened by the BRA's current financial problems. To maintain the its fiscal stability the City must better define the key elements of the BRA's work and find ways to continue that work without an undue burden of additional costs which the City can ill afford.

Diversify the City's revenue stream. Seventy-one percent of total revenue comes from just two sources—the property tax and the Commonwealth. Both of these revenues are strictly controlled by state law and legislative action. City government must be able to share some of the benefits of the investment to keep Boston's economy healthy.

Achieve a more rational separation of state and municipal obligations. Finally, local policy judgments, rather that state mandates, must drive financial decisions. The unreasonable burden of Suffolk County corrections costs, and the looming cost of state mandated charter schools are two clear examples of vulnerability to state mandates that do not necessarily reflect local priorities or ability to pay.

These six items—smarter management, consolidated City government, investment in infrastructure, a coordinated economic development plan, a more diversified revenue base, and fewer state mandates—are prerequisites to the City's future financial solvency.

Financial Operations

This section summarizes the City's financial management operations by describing the offices and systems that implement the strategy, reviewing the City's capital borrowing, and debt and pension management systems, and summarizing key management initiatives.

Responsible Officials and Agencies

Boston's financial operations are ultimately directed by the Mayor. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City. The City's Chief Operating Officer directs administrative services. City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget and Program Evaluation, under the direction of the Chief Financial Officer.

Four other departments which are included in the Chief Financial Officer's Cabinet have major roles in the City's financial structure.

The Chief Financial Officer serves as the City's Collector-Treasurer. The Treasury Department collects revenues due to the City and Suffolk County, and pays all amounts due for payrolls and to outside vendors. The Collector-Treasurer also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.

The Auditor monitors internal controls, manages grant funds, provides financial reports, maintains books and records of the City and County, and approves all payments made by the City and County. The Auditor is an ex-officio member of the State-Boston Retirement Board.

The Commissioner of Assessing supervises the Assessing Department and the valuation, for tax levy purposes, of real and personal property located in the City.

The Capital Budgeting Office prepares and monitors the City's capital budget and coordinates the long-range capital planning activities of City, County, and School departments. In FY95 the City's operating and capital budget functions will be combined in the new Office of Budget Management.

Two decision-making bodies also fill prominent roles in the City's budget pro-

cess. The legislative body of the City is the City Council, which consists of 13 members serving two-year terms. Four are elected at-large and nine are elected from geographic districts. The Council may enact ordinances and adopt orders which the Mayor may either approve or veto. Except for orders borrowing or appropriating money, the Council may override a mayoral veto by a two-thirds vote. The Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it. For a description of the operating budget process see "Program Budgeting" and "Budget Organization and Glossary."

The City's public schools are under the control of the School Committee which, as of January, 1991, is appointed by the Mayor. The School Department operating budget is submitted to the Mayor and City Council as part of a budget process parallel to, but separate from, the City and County.

Until FY91, the School Department regularly incurred operating deficits. Chapter 613 of 1987 placed stricter controls on the School Department's appropriation process, in an attempt to limit the potential for overexpenditure, and strengthened the powers of the Superintendent vis-a-vis the School Committee. The Department, however, continued to deficit-spend. As a result the City needed to ensure that other City spending remained below available revenues in order to offset the School Department deficits. These annual School Department deficits continued through FY90, ending only with the creation of an appointed School Committee accountable to the Mayor.

Pension Management

Putting Boston's financial house in order has required the City to make substantial improvement in the funding of the City's employee pension system. According to one actuarial standard measure, since FY83 the State-Boston Retirement System (S-BRS) has gone from being 16% funded to being 62% funded. (Figure 1.)

Prior to 1987, the City's annual pension contribution was on a pay-as-you-go basis with annual contributions determined by the Public Employee Retirement Administration. The 1987 Commonwealth Pension Reform Act gave local retirement systems the option to fundamentally change their method for financing retirement costs. The S-BRS became the first local system to elect the "fully-funded" option and committed to switching to a fully funded method of financing, beginning in FY90. This change impacted the City's long-term outlook on pension costs.

Pension Funding
State-Boson Retirement System

Fiscal Year June 30	S-BRS FASB 35 Liability	S-BRS Assets
1993	$2,187	$1,354
1992	2,036	1.196
1991	1,935	1,060
1990	1,933	1,028
1989	1,797	941
1988	2,038	749
1987	1,949	727
1986	1,889	517
1985	1,816	412
1984	1,676	383
1983	1,828	287

Figure 1

Under the old pay-as-you-go method, the actual pension payroll for current retirees serves as the main basis for each year's pension appropriation. Under this method, a newly founded system has very little expense for the first several years. As a greater number of employees retire, however, actual pension costs rise significantly and continue to rise for many years. At a certain point a retirement system "matures;" a full complement of retirees passes through the system, and the number of retirees on the pension payroll stabilizes. This state of maturity contributes to the fiscal soundness of a retirement system. Boston's retirement system reached "maturity" several years ago.

Under a fully funded method of financing, a system sets aside funds for future pension liabilities as they are incurred by current employees. An actuarial determination is made as to what percentage of the personnel payroll is sufficient to fund the future retirement costs accrued by employees for any given year. The resulting future liability incurred during any one year is called the "normal cost." Under the 1987 Pension Reform Act, the conversion from a pay-as-you-go system to a fully funded system can involve a transition of up to 40 years. During that transition the "unfunded accrued pension liability" is gradually reduced to zero.

Until the City's unfunded pension liability is reduced to zero, the City's annual pension costs will essentially consist of two components — the "normal cost" and the amortized portion of the unfunded liability. These components are laid out in a funding schedule that is updated periodically until the unfunded pension liability is eliminated. At that point, the "normal cost," or currently incurred liability, will be the only pension cost which the City will have to continue to fund.

A home-rule petition (Chapter 450) enacted in December, 1991, amended the allowable structure under which the City's pension funding schedule is developed. Using this flexibility, the State-Boston Retirement System revised the funding schedule to fully fund the system over a shorter time period (the next 29 rather than 37 years), and incorporated the system's significant actuarial gains of the last three years into the first half of the schedule. As a result, Boston's pension appropriation decreased by over 10 percent for FY92 through FY94.

In the fall of 1993, the State-Boston Retirement System completed its most recent full valuation of the pension system. Incorpoprtated into the new funding schedule were further significant actuarial gains and a rising share of normal costs covered by employee deductions. Consequently, pension costs for the City decreased in FY94 by approximately 16% as compared to the amount originally contemplated in the City's budget.

Infrastructure, Capital Planning and Debt Management

In 1984 Boston had no capital planning process, no capital budget, and no ability to raise capital to make improvements because the City's bond rating had been suspended. Since 1984 the City has raised its ratings to historical highs and has made extensive capital improvements through a capital budgeting process. The City's eighth consecutive 5-year capital budget was released in February, 1994.

The Capital Planning office evaluates the condition of the City's capital stock, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses taken. This ongoing process is documented by an annually updated five-year capital plan.

In addition to its planning functions, Capital Planning also plays an ongoing construction management and supervisory role during the implementation phase of its capital projects. Capital Planning reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Working closely with Capital Planning, the Collector-Treasurer supervises the City's capital borrowing, consistent with debt management policies developed to reestablish the City as a creditworthy entry into capital markets. Under these policies, the City is committed to: maintaining debt service at less than 10 percent of General Fund expenditures; structuring repayments so that 25 percent of borrowing is repaid within five years, and 50 percent is repaid within ten years; and endeavoring to decrease and maintain debt per capita, and debt to assessed property value ratios to those in comparable cities.

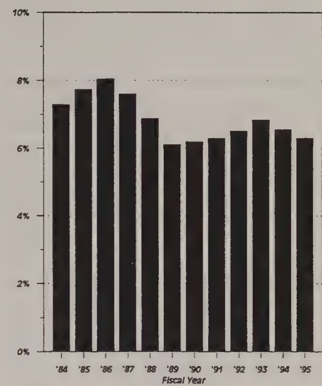
Two mainstays of the City's positive debt service position have been the relative stability of the total debt outstanding and the rapid retirement of debt.

Following suspension of the City's bond rating in 1981, the City ceased raising funds in the capital markets and deferred planned capital projects. Without new borrowings, principal and interest on long-term debt declined. This reduced expenditures for debt service in the short-term, but it jeopardized the condition and quality of the public infrastructure necessary to support future economic growth.

In FY84, the City returned to the capital markets to finance long deferred capital projects. Since then, the City has entered the market ten times for general obligation borrowings, and three times for a refunding of general obligation bonds with high interest rates. The annual cost of servicing both this new debt and previously incurred debt has increased only marginally. As a percentage of recurring expenditures, debt service has remained low in comparison to the recent past: from FY84 – FY88 debt service ranged generally between 7 percent and 8 percent; from FY89 – FY94 it has ranged generally between 6 percent and 7 percent. (See Figure 2.) Assuming the City maintains the current five-year plan, and assuming no major surprises in the long-term outlook for overall expenditures, it appears likely the City will be able to maintain the lower range of 6 percent to 7 percent for debt service as a percentage of total recurring expenditures during the mid-1990's.

Two mainstays of the City's positive debt service position have been the relative stability of the total debt outstanding and the rapid retirement of debt. The City's total debt outstanding throughout the last decade has generally remained in the $500 million to $600 million range, and in any given year during that period at least 40 percent of principal outstanding has been scheduled to be retired in five years, and 69 percent in ten years.

Other factors have contributed to this favorable debt position in the recent past. First, the City took maximum advantage of recent low interest rates and did a large refinancing of City debt in February, 1993 and February, 1994, as well as refinancing of hospital debt in June, 1993.



Debt As A Percent Of Expenditures
FY90 Through FY95

Figure 2

Second, the City slowed down the rate of capital expenditures in response to reductions in local aid in FY90-92, without making the fundamental error of abandoning capital spending altogether and thereby allowing the infrastructure to deteriorate. Third, in spite of the recent recession and two straight budgets with reduced revenue, the City maintained its improved bond rating and thus maintained the City's image in the capital markets. Fourth, the City has managed its cash flow such that short-term borrowings were not needed in each of the last six fiscal years. This has been possible in the last few years mainly because of the switchover to quarterly billing for property tax and quarterly distribution of local aid. For more detail on the City's capital budget process see *Capital Budgeting*.

Financial/Management Initiatives

The City has undertaken a number of major policy initiatives to improve its internal management system. Major elements of this system include:

Integrated Financial System: In FY86 the Auditing Department acquired a Local Gov-

ernment Financial System (LGFS). This computerized financial management and accounting system tracks standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, LGFS performs the specialized functions of encumbrance control, fund accounting, and grants management, as well as other accounting and budgeting functions. The utilization of this system has improved the financial monitoring and reporting of funds management. On-line access to financial information allows department managers to directly evaluate the financial performance of their department as a whole, as well as specific programs within their department.

Program-Based Budgeting: The FY88 Budget adopted program-based budgeting, requiring each department budget request to be accompanied by performance objectives and related promised performance measures. The program-based budgeting format facilitates efforts to hold departments accountable for their performance and assist them in effecting management or systems changes that will improve the delivery of City services. During each fiscal year the City prepares a midyear report to document departmental progress and, at the conclusion of the year, it publishes a final annual report summarizing the performance of the departments. For more detail on program-based budgeting see *The FY95 Budget and Performance Goals Process*.

Property Tax Collections: The collection of property taxes has been improved by enhanced tracking systems, more thorough collection procedures and notifications, and letter writing campaigns to first-time delinquents, resulting in increased collections. The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. This program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute, and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts. Over the last ten years, the City has maintained a collection rate of tax levy collected within the fiscal year of the levy of betwen 93% and 96%.

Managed Downsizing: In light of local aid reductions since FY89, the City has been forced to make significant reductions in City spending. As a result of this downsizing, the number of total City personnel has dropped 13.3 percent since January, 1989. The City work force is currently smaller by 1,369 FTEs than in January, 1984.

The City has made a great effort to accomplish these reductions with as few layoffs as possible. With the exception of personnel reductions as a result of the closing of Long Island Hospital and planned downsizing at Boston City Hospital, most reductions have been accomplished through attrition. In the spring of 1991, the City offered a voluntary termination program to all employees. In addition, the Department of Health and Hospitals, the School Department, and the Inspectional Services Department have offered department-specific retirement incentive programs.

Additional steps taken to manage expenditures in the face of declining revenues include new restrictions on out-of-state travel, the assignment and use of City vehicles, and equipment purchases.

Health Insurance Cost Controls: In January, 1991 the City began a major new initiative to control the rapidly rising cost of employee health insurance. In consultation with City employee representatives, the City conducted an audit of Blue Cross claims that recovered over $4 million, reduced stop loss insurance costs, and enrolled eligible retirees in Medicare to reduce City costs by an estimated $1.4 million annually. In FY94, competitive bidding of Health Maintenance Organiztion contracts will save over $2 million in FY95. During FY95, the City will bid its re-

Over the last ten years, the City has maintained a collection rate of tax levy collected within the fiscal year of the levy of betwen 93% and 96%.

The report detailed a significant reduction in rapidly increasing risk costs due to the efforts of the Risk Management Council.

maining health insurance contracts as well. In addition, the City has positioned itself to much more effectively negotiate rates in the future.

Risk Management Initiative: In the spring of 1992, the City established a formal risk management program. The program coordinates efforts of key staff departments (Personnel, Workers Compensation, Labor Relations, Health Benefits, Law, and Retirement) in working with line departments to reduce a variety of risk-related costs. In addition to data collection, new reporting systems, and aggressive education efforts, accomplishments to date include increased collections from third party insurers for damage to City property, more active health and safety committees, and revised medical billing systems to take advantage of available discounts. The City's first ever Risk Management Progress report was released in January, 1994. The report detailed a significant reduction in rapidly increasing risk costs due to the efforts of the Risk Management Council.

Financial Controls

In addition to the management systems described above, the City operates under several statutory financial control systems. Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than $3 million between departments.

Additionally, the Funding Loan Act limits the amount of personnel expenditures that a department can make in any single quarter to a specific percentage of its appropriation, and requires mayoral waiver to approve any overexpenditures.

The 1986 amendments also mandated that the City establish a reserve fund which, by FY90, had to be not less than 2 1/2 percent of the preceding year's appropriations for City and County departments except the School Department, which has its own separate reserve requirement. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year, with the approval of the Mayor and the City Council. As of June 30, 1993 the amount in the City's reserve fund was $17.925 million, an amount which slightly exceeded 2 1/2 percent of the FY94 appropriation for City and County departments.

Auditing and Budgeting Practices

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue are used in the annual budget and property tax certification process. The statutory accounting system departs from GAAP in a number of respects. More technical discussions of these differences can be found in the City's official statements relating to bond sales, and in notes to its audited financial statements.

Fund Accounts

The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. There are currently no transfers between funds. The funds and account groups are organized into four types described below.

Government Funds are those through which most governmental functions are financed.

- *The General Fund is the City's most widely used fund. All financial resources, except those required to be accounted for in other funds, are in the General Fund; the detail of the fund comprises Volumes II-IV of this budget submission.*
- *Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those detailed below) that are legally restricted to expenditures for specified purposes. Special Revenue Funds are described in Volume V of this budget submission.*
- *Debt Service Funds are used to account for the accumulation of resources for, and the*

payment of, principal and interest on City debt.

- *Capital Project Funds account for financial resources used to acquire, construct, or perform large scale renovations to City-owned facilities. These funds are derived principally from general obligation bonds and from federal and state grants.*

Proprietary Funds include Enterprise Funds and Internal Service Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. Accounting principles used for these Fund Types are those applicable to similar businesses in the private sector and thus, these funds are maintained on an accrual basis of accounting.

The City does not maintain Internal Service Funds.

Fiduciary Funds are used to account for assets held in a trustee capacity (Trust Funds) or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds. Trust funds include Expendable Trust Funds, Nonexpendable Trust Funds and Pension Trust Funds.

Account Groups: The General Long-Term Obligations Account Group is used to establish control and accountability for general long-term obligations not financed by and accounted for in Enterprise Funds. Examples are abatement refunds, accrued employee sick and vacation leave, and judgments and claims.

The City established a General Fixed Assets Account Group in FY94.

Capital Budgeting

Capital Budgeting

Overview

A key element of Mayor Menino's efforts to improve accountability is the establishment of a financial cabinet under the leadership of a Chief Financial Officer(CFO). This major change, reflected in the 1995 operating budget, involves the integration and reorganization of the City's financial functions. The anticipated outcomes of this initiative are improved coordination of resources, more efficient financial decision making, and a consistent set of priorities for capital and operating expenditures.

The CFO can insure that the allocation of operating and capital resources is consistent, coordinated, and results in better budgetary management. Through the establishment of a Capital Budgeting program as part of the Office of Budget Management(OBM) the City is realigning its organization to facilitate major improvements in the capital and operating budgets. The newly established program will be able to focus on developing new techniques and investment strategies to build on the foundation that has been established by the Division of Capital Planning.

The Division of Capital Planning was responsible for coordinating and directing a significant increase in the level of investment in the City's infrastructure and physical plant. By centrally managing the capital budgeting process the City was able to address the critical problems that were the result of a lack of capital investment. Overtime the City's capital plan focused on renovating and repairing the City's extensive capital stock.

With the establishment of the program of Capital Budgeting the City can target its investment towards the strategic deployment of capital resources to support improved service delivery and more effective government. Improved coordination between the operating and capital budgeting programs, redesigned budget schedules and submissions, and clearly defined financial goals will be important factors in achieving this aspect of improved financial management.

The Capital Budgeting Program

Capital Budgeting is responsible for managing and coordinating the city's Capital program.

These responsibilities include:

1- conducting an annual capital budget request process to determine departments' facility and infrastructure needs,
2- recommending the allocation of current and future resources to meet the City's capital needs,
3- evaluating the financial needs of the capital plan, including assessing the current and future financing needs,
4- forecasting the timing and requirements of new construction and renovation projects, and
5- monitoring capital project budgets and construction.

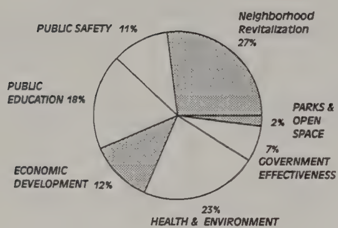
In addition, as a program of OBM, Capital Budgeting will work closely with the operating budget staff on improving the coordination of the operating and capital budgets, and evaluating the operating impacts of capital projects.

"Getting the Job Done" Boston's Five Year Capital Plan 1994-1998

"Getting the Job Done" is the most recently published five year capital plan for the City of Boston. The new plan, covering the fiscal years 1994 through 1998, totals $889.4 million. The plan builds on the strategic priorities of previous plans, carrying forward hundreds of projects that are in design or construction, and initiating 86 new projects.

While building on a successful history of capital budgeting, the new plan reflects some important improvements in both format and content. To emphasize the importance of various priorities, the plan and its contents have been reorganized. The plan is organized around seven key themes, Neighborhood Revitalization, Public Safety, Public Education, Economic Development, Health and the Environment, Government Effectiveness, and

Parks and Open Space. (See Figure 1.) Each section contains information on City goals, programs and project profiles. Project review forms for each capital project are included in each section.



Capital Expenditures by Theme
FY94 - FY98

Figure 1

This year's plan is the first time the City has published project review forms that detail project information on over 400 capital projects. For each project, the project review form includes name, location, detailed project description, status, completion date and financial information including the proposed financing and appropriations of all City, state, federal, trust and other funding sources.

Capital Budget Expenditures

Neighborhood Revitalization, approximately 27% of total capital spending, is focused on projects to make Boston's neighborhoods strong, safe, and stable communities. Projects include sidewalk, roadway, streetlight replacement and reconstruction programs carried out in annual cycles by the Public Works Department. Enhancements to housing and business district infrastructure, managed by the Public Facilities Department and the Boston Redevelopment Authority include sidewalks, streetlighting, and trees. Another major component of this theme is the investment in playgrounds, playlots and outdoor recreational facilities by the Parks and Recreation Department. Community Centers projects, pools and community center facilities make an important contribution to revitalized neighborhoods. Carried out by City departments, these projects form the foundation for a coordinated investment strategy necessary for the upgrade and enhancement of the public spaces that are vital to Boston's neighborhoods.

The second largest component of the plan is the $200 million targeted for Health and the Environment initiatives. Boston's largest capital project, the construction of Boston City Hospital (BCH), has recently been completed. This project ensures Boston residents access to a state-of-the-art inpatient facility. The rebuilt BCH, the cornerstone of a health care network providing a continuum of care for Boston residents, is an integral component of the City's investment strategy aimed at providing efficient and well-designed health care facilities that promote effective delivery of services. The City will continue to invest in specialized health care facilities at Long Island Health Campus and Boston Specialty and Rehabilitation Hospital. Additional investment is planned in medical equipment, Neighborhood Health Centers, and emergency homeless facilities to ensure access for Boston's undeserved populations. In response to federal and state mandates, and as part of an attempt to improve the working conditions of City employees, the City's environmental projects are initiated as City-wide mitigation projects or incorporated into building improvement efforts. Additionally, efforts to eliminate hazardous waste through the removal of underground fuel tanks and asbestos abatement projects are continued in this year's plan.

The City's $163 million funding of public education includes school and library programs designed to create an optimum physical environment for learning. The City will continue to commit a major amount of time and money to its school

Treasury Guidelines

- *Combined net direct debt should not exceed 3% of taxable assessed value.*
- *At least 25% of the overall debt should be repaid within five years, and 50% within ten years.*
- *The variable rate debt should not exceed 20% of the City's total currently outstanding debt.*

renovation program. Over $126 million will be invested in school facilities, including the funding of a major masterplanning effort. The masterplan, building on the recently completed facility assessment, will establish a Blue Ribbon Commission to assess what Boston's schools should look like in the future. This masterplan will provide critical information to the School Department as it implements school-based management and struggles with ways to use school facilities as community learning centers. Library projects are a major component of this section with over $37 million planned for renovation projects to enhance the City-wide network of branch libraries. The historic McKim Library, the anchor of the Boston library system, is undergoing an extensive renovation to protect and preserve this valuable City asset.

Economic development projects, a $107 million investment, reflects the City's commitment to strategically maintaining and enhancing its infrastructure to support economic activity. City investment has focused on the maintenance of bridges, major roadways and boulevards necessary for Boston businesses. Masterplans for three major economic expansion projects, the Seaport District Revitalization, a South Bay masterplan and the Huntington Avenue Plan, are budgeted in the FY94-FY98 Plan.

The $97.8 million invested in Public Safety projects represents investments in police and fire facilities. The cornerstone of the City's public safety investment is the construction of a new police headquarters facility and investments in major technology systems like the computer-aided-dispatch and the back-up operation center. Many neighborhood fire and police stations will continue to receive renovations and upgrades.

Government Effectiveness projects encompass $61.2 million in projects focused on improving the delivery of government services and protecting City assets. Investments in municipal facilities are designed to promote accessibility and improve the delivery of City services. Ongoing investments in City buildings will protect and enhance the City's ability to deliver services and programs.

The City's investment in Parks and Open Space totaling $18 million is aimed at restoring and preserving Boston's vast network of parks and open space. Integrating recommendations from comprehensive masterplanning studies, the Capital Plan projects focus on supporting the use and long-term viability of Boston's park system.

Capital Budget Financing

The City's capital program is funded by a diverse set of funding sources that includes general obligation debt, revenue financing, state and federal funds, trust funds and miscellaneous other funding. Funding sources for the City's capital are detailed in the following table.

Capital Budget Financing		
General Obligation Debt		
Existing authorization	441,338,800	50%
Proposed authorization	141,480,400	16%
Revenue bonds	153,060,000	17%
State	73,080,000	8%
Federal	78,056,000	9%
Trust	2,002,000	.2%
Other	122,000	.01%
Total	$889,389,200	100%

To maintain a diversity of revenue sources the City actively pursues state and federal grants as an integral part of its capital financing strategy. This strategy is complemented by clear policies and guidelines for managing outstanding debt. The City's goal is to rapidly repay debt, and maintain a conservative level of debt outstanding in order to ensure the City's positive standing in the bond market.

General obligation debt has been the primary source of funds for the Capital Plan representing 66% of the total. General obligation debt is primarily long term debt that is backed by the full faith and credit of the City. General obligation bonds are payable from the property

taxes and other general revenues. During the past decade the City has sold $609.8 million of general obligation bonds. This year's plan,"Getting the Job Done," assumes an additional $380 million will be issued during the fiscal years, 1995-1998. This additional debt is assumed to have a twenty-year maturity and to have an interest rate of 5.54%. The City plans to continue to structure debt issuances to ensure that at least 25% of the City's overall debt is repaid within five years and 50% within a ten year timeframe.

The second most significant source of funding for the City's capital program is the revenue financing of BCH. In 1990 the City issued approximately $170 million of bonds to finance the rebuilding of Boston City Hospital. The bonds were advance refunded in June 1993 to take advantage of lower interest rates, achieving a present value savings of approximately $6.0 million over the life of the debt.

The bonds are secured by a mortgage on BCH that is insured by the United States Secretary of Housing and Urban Development, acting through the Federal Housing Commissioner. The bonds, unlike general obligation debt, are not full faith and credit pledge of the City. The sources of payments of principal and interest on the bonds are payments on a mortgage note that is payable from all sources of City revenue, subject to annual appropriation by the City, with certain interest earnings.

State and federal funds to support the Capital Plan are forecast at $73 million and $78 million respectively. The major source of state assistance, $33 million, is the Chapter 90 Program. These funds, administered by the Massachusetts Highway Department(MHD), are derived from state gas tax revenues. The funds are allocated to all cities and towns based on a distribution formula. The Urban Systems Program is the major source of federal funding. With the City funding design and engineering, this program funds 80% of the cost of construction for major local road projects; the remaining 20% is funded through the MHD. A similar program funds bridge repair and rehabilitation. The current Capital Plan forecasts $94 million in urban systems funds to support twenty-one roadway and bridge projects.

The remaining source of funds are grants and trust funds. Grant funding, particularly from the state, has been a decreasing source of capital revenues. Trust funds, managed by the City's Trust Office, are a small but strategic source of capital funding. The George Robert White Fund has funded capital projects in health centers and recreation centers. The Edward Ingersoll Browne Fund has been a critical source of funding for several neighborhood parks and streetscape improvements to neighborhood business districts.

Impact on Operating Budget

Capital budgeting decisions impact the City's operating budget directly through annual debt service payments and indirectly through facility and programming impacts on departmental operating budgets. An integral part of the development of the capital plan is the forecast of debt issuance and the resulting debt service requirements. City guidelines that annual debt service costs should not exceed 10% of general fund expenditures.

The Capital Plan projects annual gross debt service of $92.2 million (6/30/94) or 6.9% of the FY94 operating budget, well within the 10%. Projected FY95 gross debt service of $86.3 million, is 6.3% of the FY95 operating budget of $1.396 billion. The City projects $16.7 million in FY94 and $12.3 million in FY95 in related general fund receipts. The largest component of the operating revenue offset is the School Building Assistance Program under which the Commonwealth reimburses the City for school renovation and construction projects. The City estimates that $146.8 million will be recovered during the next twenty years from this program.

Operating impacts of capital projects, like the opening of a new facility have a direct impact on departmental operating budgets.

The opening of the new BCH will have major impacts on the operating budget of the Department of Health and Hospitals. The new building with state-of-the-art equipment and a consolidated, more modern layout results in a more efficiently functioning hospital. At the opening of the new building in February, 1994 there were 2,714 FTEs, a reduction of over 25% since the original planning for the new facility in 1986.

The construction of a new Police Headquarters is anticipated to have a major impact on police operations. During its design the Department started a process to evaluate how the new building with consolidated functions would influence police operations. One impact that has been identified is the improved efficiency from consolidating the people and equipment for case management and investigation into one facility.

The design and installation of a computer-aided-dispatch(CAD) system will allow the Police,Fire, and Emergency Medical Services to work more efficiently and effectively. The strategic deployment of capital resources to enhance operations will be an increasingly important part of capital spending

These impacts are assessed through detailed planning studies, and annually through the review of operating impact forms solicited during the capital budget process. With the establishment of the capital budgeting program in an integrated Office of Budget Management there are opportunities for further refinement of the type of impacts identified. For FY96 the City will redesign its budget processes to more closely align the submissions for capital and operating budgets requests. The City will be better able to adjust operating budgets based on capital project needs and to assess the funding of capital projects based on a comprehensive analysis of City costs. This will insure that adequate operating funding exists to maintain and staff facilities where the City has invested capital resources.

SICUT PATRIBUS SIT DEUS NOBIS.
BOSTONIA.
CONDITA A.D.
1630.
CIVITATIS REGIMINE DONATA A.D. 1822.

Statutes and Ordinances

Statutes And Ordinances Governing Boston's Operating Budget

The purpose of this section is to set forth summaries of key Commonwealth laws and City ordinances which affect the formulation of Boston's operating budget and its subsequent expenditure. Please note that the material is not all-inclusive, but does cover the more important laws guiding the budget process.

In addition to the statutes and ordinances, other budget-related dictates can be found in various mayoral Executive Orders and in the policies and administrative guidelines issued by the Office of Budget and Program Evaluation.

Probably the most important legislation to read to obtain a more precise understanding of Boston's operating budget is Chapter 190 of the Acts of 1982, commonly referred to as the Tregor legislation, and Chapter 701 of the Acts of 1986, known as the Tregor amendments.

Annual Appropriation Process

Section 15 *of Chapter* 190 *of the Acts of* 1982, *as amended by Section* 2 *of Chapter* 701 *of the Acts of* 1986 states that "(a)ll appropriations, excepting those for school purposes, to be met with taxes, revenue or any source other than loans, shall originate with the mayor. The mayor, not later than the second Wednesday in April of each year, shall submit to the city council the annual budget of the current expenses of the city and county for the forthcoming fiscal year...

"The city council may reduce or reject any item but, except upon the recommendation of the mayor, shall not increase any item in, nor the total of, a budget nor add any item thereto, nor shall it originate a budget.

"Not later than the second Wednesday in June, the city council shall take definite action on the annual budget by adopting, reducing or rejecting it, and in the event of their failure to do so, the items and the appropriation orders in the budget as recommended by the mayor shall be in effect as if formally adopted by the city council....

"The city council shall take definite action on any supplementary appropriation order and any order for a transfer of appropriations by adopting, reducing or rejecting it within sixty days after it is filed with the city clerk...."

School Department Budget Process

Subsection 6 *of Section* 32 *of Chapter* 71 *of the Acts of* 1993 states that "In addition to amounts appropriated for long-term debt service, school lunches, adult education, student transportation, and tuition revenue, each municipality in the commonwealth shall annually appropriate for the support of public schools in the municipality and in any region school district to which the municipality belongs an amount equal to not less than the sum of the minimum required local contribution, federal impact aid, and all state school aid and grants for education but not including equity aid, for the fiscal year....the commissioner (of the Department of Education) shall estimate and report such amounts to each municipality and region school district as early as possible, but no later than March first for the following fiscal year."

Section 2 *of Chapter* 224 *of the Acts of* 1936, *as amended by Chapter* 613 *of the Acts of* 1987 further states that (a) "In acting on appropriations for educational costs, the city council shall vote on the goal amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for that fiscal year

to fund any such projected additional expenditures."

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures."

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget and program evaluation, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

School Department Financial Affairs

Section 1B *of Chapter* 231 *of the Acts of* 1906, *as amended by Chapter* 613 *of the Acts of* 1987 notes that "(t)he school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of section fifty-three A of chapter forty-four of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the city office of budget and program evaluation of the city of Boston a report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

Section 2 *of Chapter* 231 *of the Acts of* 1906, *as amended by of Chapter* 613 *of the Acts of* 1987 states that "(s)ubject to appropriations therefor, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transportation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

"(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto."

Reserve Fund

Section 7 *of Chapter* 701 *of the Acts of* 1986 requires the creation of an operating budget Reserve Fund in order to deal with "extraordinary and unforseen expenditures." The section goes on to state that "prior to the date when the tax rate for a fiscal year is fixed, include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than two and one-half percent of the preceding year's appropriations for city and county departments, excepting the school department...

"The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

"Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer...."

This section further notes penalty provisions for exhausting the Reserve Fund and provisions for stepping up the fund to the 2 1/2% level. The section requires a 1% contribution for FY87, 1 1/2% for FY88, 2% for FY89 and the full 2 1/2% starting in FY90.

The section then notes that "the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year's appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this (school department reserve) fund before May first in any fiscal year..." and "shall require the approval of the mayor and the city council."

Budget Allotment Process and Reallocations

Section 18 *of Chapter* 180 *of the Acts of* 1982, *as amended by Sections* 8 *and* 9 *of Chapter* 701 *of the Acts of* 1986 requires that "(o)n or before August first of each year, or within ten days of the annual appropriation order for such fiscal year whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year...(The allotment for the school department may not be greater than 20% for the first quarter, and not greater than 30% in each of the remaining three quarters.) (Allotments for city and county agencies may not exceed 30% for first or second quarters and for the third and fourth quarters may not be less than 21%.)

"Whenever the city auditor determines that any department or agency, including the school department will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

"The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter's allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter's allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter's allotment. If the allotment for such quarter is enforced and not waived, thereafter the department shall terminate all personnel expenses for the remainder of such quarter....

"No personal expenses earned or accrued, within any department, shall be charged to or paid from such department's or agency's allotment of a subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

"Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head....

"To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal ser-

vices to non-personal services, except with the approval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department....

"No reallocation may be made under this section after April fifteenth in any fiscal year.

"A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefor."

Transfer of Appropriations

Section 23 *of Chapter* 190 *of the Acts of* 1982, *as amended by Section* 3 *of Chapter* 701 *of the Acts of* 1986 states that "(a)fter an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office, shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a...vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

"After the close of the fiscal year, the city auditor may with the approval of the mayor in each instance, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefor."

Penalty for Overspending Budget

Section 17 *of Chapter* 190 *of the Acts of* 1982 (*Tregor*) states that "(n)o official of (the) city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations....

"Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid...."

Appropriation Restrictions

Section 10 *of Chapter* 701 *of the Acts of* 1986 requires that "the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those accounts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts...."

Disposition Of Surplus Property Restrictions

Section 24 *of Chapter* 190 *of the Acts of* 1982, *as amended by Section* 4 *of Chapter* 701 *of the Acts of* 1986, requires that "proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more; (2) all proceeds in excess

of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city."

Duties Of Supervisor Of Budgets

CBC *Ord*. 5, *s*. 5 states that "(t)he supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget....

"The supervisor of budgets shall also prepare...all transfer orders....

"The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

"The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than section 56 of chapter 35 of the General Laws."

SICUT PATRIBUS SIT DEUS NOBIS.

BOSTONIA.
CONDITA A.D.
1630.

CIVITATIS REGIMINE DONATA A.D. 1822.

Boston's People & Economy

Boston — Its Economy, People and Neighborhoods

Boston makes up 9.5 percent of the state's population, yet it accounts for 16 percent of all jobs and 23 percent of all goods and services produced in the state.

As a major regional center, Boston's economic and social well-being is important not only to its 600,000 residents, but also to the surrounding area. Boston's economic and social activity is a driving force in Massachusetts and indeed, in the entire New England region.

Boston provides a wide range of services not only to its residents but also to hundreds of thousands of daily commuters, students, and tourists. Meeting these "outside" needs presents a significant challenge.

Boston's Role in the Regional Economy

The City of Boston is the metropolitan center of the Commonwealth and the New England region. Boston has one of the largest concentrations of population, employment, and income in the nation, and its leadership assisted the region in surpassing the national average on several important measures in the years between 1976 and 1988. However, beginning in 1989 the economy experienced a significant downturn. Regional unemployment, which had remained below the national rate between 1978 and 1989, was consistently 10 to 15 percent above the national average during 1990 and 1991. In 1992 the trend began to reverse; Boston's unemployment rate was 7.8%, below the Massachusetts rate of 8.5% and only .4% above the national rate of 7.4%. Data from the first eleven months of 1993 shows the City's unemployment rate was lower than both the national rate and the Massachusetts rate in nine out of the eleven months.

Commuting patterns highlight the City's influence in the metropolitan region. Boston makes up 9.5% of the state's population, yet it accounts for 16% of all jobs and 23% of all goods and services produced in the state. More than one in four working residents of the 25 cities and towns with the highest per capita income in the Commonwealth—a total of 212,468 persons—had jobs in Boston.

Boston's Logan International Airport was the twelfth busiest in the U.S. in 1991, with more than 6,000 domestic and 500 international flights per week. It was ninth busiest in passenger volume. In FY92, the Port of Boston, serving the six-state New England region, handled over 1 million tons of containerized cargo and 17 million tons of bulk cargo worth over $8 billion. Boston's public transportation system reaches into the many neighborhoods and links to the regional commuter rail system, connecting three million people to the central city. The road system provides access to commuters through surface arteries and three limited access interstate highways: the Massachusetts Turnpike, and two circumferential routes, ten and twenty-five miles out from the City. These are bordered by major industrial parks and high-technology industry.

Boston's Economy

The Changing Nature of Boston Jobs. On average, Boston appears to have the state's better paying jobs, although many of these jobs are not held by Boston residents. Wages earned by place of work have been consistently higher in Boston than in the metropolitan area and the Commonwealth as a whole during each year between 1980 and 1990. Except for manufacturing and wholesale trade (industries with a diminishing share of employment in the City), wages in Boston were higher than the Commonwealth average for all types of industry. For all industries combined, the City's average wage of $30,922 was 11.5% greater than the metropolitan area average and 19.2% greater than the state average.

The growth of 68,983 jobs estimated for the City from 1982 through 1988 was offset by the loss of 69,662 jobs from 1988 through 1992. The resulting net loss for the ten year period was only 679 jobs. Job losses in 1992 were relatively small. The small ten year period total loss hides much greater variations by industry type, however. Construction, manufacturing, wholesale and retail trade, transportation, communications, utilities show the greatest losses while gains are evident in services, health, education and cultural and government. (See Figure 1.)

	1982	1992	% Change
Construction	12,324	10,114	-18%
Manufacturing	50,353	27,936	-45%
Transportation, Communication, and Utilities	37,857	35,119	-7%
Trade (wholesale and retail)	85,676	72,342	-16%
Finance, Real Estate, Insurance	81,368	81,308	0%
Services, Health, Education, and Cultural	212,878	248,097	17%
Government	89,370	94,240	5%
Fishing, Mining, and Agriculture	1,187	1,178	-1%

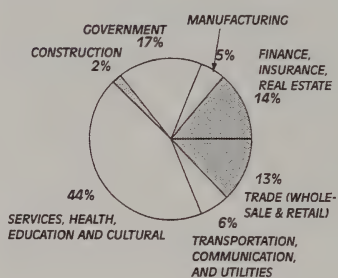
City of Boston Employment, 1982-1992 by Industry

Figure 1

According to the most recent data, the Boston Metropolitan are a (which consists of the City and 105 contiguous municipalities and has a population of 2.8 million) added 59,000 jobs between January, 1993 and January, 1994. It is unclear at this point what portion of the job gains are within the City itself. At the statewide level the largest gain has been in the services sector. Manufacturing was the only major sector to experience job losses during this period.

Finance, Health, and Education Industries. Boston is a major financial, educational, and medical center. Of Boston's ten largest employers, nine are in the financial services, health, and education sectors, responsible for 12% of the total private sector employment in 1991. (See Figure 2.) There are more than 1,000 financial institutions located in the City. Boston is a major venture capital center and has the distinction of being the birthplace of the mutual funds industry. In addition, the City has 36 universities, colleges, and community colleges as well as 26 career or technical schools. Combined, these have an enrollment of more than 125,000 students. The City has a higher ratio of students to population than any other major U.S. city.

The City's medical institutions are an important component of it's economy, providing employment for residents of Boston and the metropolitan area. In 1992, there were an estimated 84,046 persons employed in health services in the City. Health services represent 1 out of every 7 jobs within the City. Boston hosts the medical and dental schools of Harvard, Tufts, and Boston Universities. The City also has 30 local community-based health centers. Six are affiliated with Boston City Hospital (BCH), and most of the others receive some funding from BCH.



Employment By Industry

Figure 2

However, the non-profit status of these educational, cultural, and health service institutions means they receive the full range of basic City services at no cost. Fifty-one percent of Boston's property area is tax exempt.

Construction Activity. During the last two decades, public and private construction have played an important part in transforming the City's economic base. Since 1975 the private sector has added 16 million square feet of building space — five times more than was added during the preceding 35 years. This period saw record construction of office space, and substantial increases in the number

The Boston Harbor clean-up project, the depression of the Central Artery, and the construction of the Third Harbor Tunnel are major efforts that will continue unprecedented levels of post-WWII construction activity.

of hotel rooms, medical, and educational facilities.

Construction will continue to play a major role in the area's economy. The Boston Harbor clean-up project, the depression of the Central Artery, and the construction of the Third Harbor Tunnel are major efforts that will continue unprecedented levels of post-WWII construction activity. However, while these projects will generate employment and provide opportunities for local contractors, they will not add to the taxable property base.

Boston's People—A Changing Urban Population

Income Growth and Economic Disparity. Per capita income in Suffolk County, of which Boston residents constitute approximately 87%, increased from $12,404 1982, to $24,625 in 1991. Since 1990, the County's per capita income has been higher than that of the metropolitan area and the state.

The City's median household income has been rising in recent years as well, from $12,530 in 1980, to $19,250 in 1985, and to $29,180 in 1990. As expected, white households, male-headed households, and non-elderly households have higher incomes than minority, female-headed, and elderly households, respectively. The most important source of income for both non-poor and poor households is salary and wages.

Despite increasing prosperity, Boston is a city of income contrasts. Average household income in Boston was $37,907 in 1990, but 21% of Boston households had incomes of less than $10,000, while 42% of households had more than $35,000 in annual income.

In 1989, 18.7% of all residents were living below the official poverty line. Poverty rates in Boston are higher among children, single parent families, minorities, and recent immigrants to Boston. More than 30% of the residents of South Boston, Jamaica Plain, Roxbury, and Dorchester live in households with incomes below the poverty line. On the other hand, fewer than 9% of the residents of Central Boston, Back Bay-Beacon Hill, Roslindale, West Roxbury and Hyde Park live in poor households.

Unemployment in Boston. Since 1982 and until recently, unemployment in the City had steadily declined. In 1980, unemployment averaged 6.1%, down from a high in 1975 of 12.8%. The unemployment rate had remained below the national average in each of the years since 1980. In 1987, the Boston unemployment rate was 3.2%, the same as the state-wide average, and well below the national level of 6.2%. Since 1989, however, the state, metropolitan, and City unemployment rates have increased. In 1991, the City's unemployment rate was 8.5%, a rise from 3.0% a year earlier and above the 6.7% national rate. As noted above, Boston's most recent unemployment data shows Boston below both the national and Massachusetts rates.

The Recession and the Local Economy. The beginning of the nineties saw the downturn of what was clearly an overheated local economy, fueled in large part by unsustainable increases real estate values. Strong demand in Boston and the surrounding area during the late 1980's caused rapidly increasing housing prices, higher rents, and corresponding increases in the CPI since 1983. The recession, combined with large real estate losses in the financial sector, reversed this trend. As a result, the median sales price of existing single family homes in Boston fell 3.3% during the period 1989 to 1991, compared with an increase of 9.3% in the nation as a whole. During the ten years 1981-1991, the cost of living index rose at an annual average rate of 4.75 in the Boston metropolitan area, the national increase for the same period was 4.1. This trend appears to be reversing, between November, 1992 and November, 1993, the cost of living in the Boston area rose 2.7%; this increase was less than the 3.2% increase in the nation as a whole.

A Stable and Diverse Population. Boston's population reached its low point in 1980, when it had fallen by almost a third from its peak of 801,000 in 1950. Between 1980 and 1990 the City's

population was relatively stable. This stability has been partially credited for the extraordinary wage increases and low unemployment rates of the eighties. The 1990 Census recorded the City's population at 574,283, representing a slight 2% increase over the City's 1980 population of 562,994, the first increase since 1950. Projections made in 1991 forecast a further increase of slightly more than 2.5 percent over the next ten years.

The population of Boston is increasingly made up of young adult and middle-aged groups. In 1990, the median age in Boston was 30.3 years, 10 percent younger than the Massachusetts median. This mirrors national patterns. For example, the number of children aged 5 to 14 years old declined between 1985 and 1990 from 11.6 percent to 9.9 percent of the population, while the 35-44 year old population increased from 9.4 percent to 13.6 percent of the total. During the period 1985 to 1990, Boston residents who were age 65 or older increased from 11 to 13.7 percent.

Household size in Boston is stabilizing after a long decline. While in 1970 average household size was 2.76 persons, it declined to 2.4 persons in 1980. The 1990 Census showed an average 2.37 persons. The proportion of households made up of families (rather than unrelated individuals) had decreased to 50.7 percent of total household units in Boston in 1990, after declining from 65 percent in 1970 to 53 percent in 1980, again reflecting national trends.

Boston maintains a rich cultural heritage. The range of ethnic backgrounds and countries of origin shows the growing diversity of Boston's population. While Irish, Italian, and other European ancestries predominate in most neighborhoods, persons of Haitian, West Indian, Middle Eastern, African, Chinese, and other Asian heritages make up more than 10 percent of the population in some neighborhoods.

During the period 1980 to 1990, Boston's minority population has increased in proportion to whites. The racial shifts are profound. Boston's minority population comprised 30 percent of the total City population in 1980, and grew to 41 percent in 1990. Since 1980, while the African-American, Asian and Pacific Island, and Hispanic populations have continued to increase, the white population has declined 11.4 percent. This reverses a trend during the period from 1970 to 1980, when there was a substantial influx of 25-34 year olds who were mainly white middle class professionals, resulting in a net population growth in the more centrally located neighborhoods even while the overall City population was falling.

The proportion of persons speaking a language other than English tends to follow the patterns of ancestry and country of birth by neighborhood. While 80 percent of Bostonians speak English at home, other languages frequently spoken at home are Spanish (6 percent), French and Creole (3 percent), Italian (2 percent), and Chinese (2 percent). Other languages comprise the remaining 7 percent non-English languages spoken at home.

The range of ethnic backgrounds and countries of origin shows the growing diversity of Boston's population.

Boston's Neighborhoods. While Boston's population of 600,000 lives in a City of only 43 square miles, its neighborhoods are diverse. Based on a 1985 BRA survey, neighborhoods vary significantly in average age and family status. "Older family" neighborhoods include East Boston, Charlestown, South Boston, Central, and West Roxbury. In these neighborhoods, up to 40 percent of the family units are husband-wife families with about half having children, about 5 percent are other families most of which have children, and the rest are unrelated individuals and roommates. "Younger family" neighborhoods include Mattapan, Roslindale, and Hyde Park, with nearly 40 percent of family units made up of husband-wife families with children. West Roxbury, while more diverse in family age groups, has about one-third of its family units consisting of husbands and wives with children.

"Mixed neighborhoods" include Jamaica Plain, North and South Dorchester, and Roxbury; in these neighborhoods between one-third and one-half of the family units are unrelated individuals, with the rest roughly evenly divided between

husband-wife and other families. "Young singles" neighborhoods include Fenway-Kenmore and Allston-Brighton; about 80 percent of the family units here are individuals, with about half living alone and half with unrelated roommates. The "young to middle aged singles" predominate in Back Bay-Beacon Hill and the South End; again, 80 percent of the family units are made up of unrelated individuals with about 60 percent living alone.

Budget Organization & Glossary

Budget Organization and Glossary of Terms

The "Transition" section of Volume I highlights the plans of the Menino administration.

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Operating Budget presents recommended resource allocations in terms of personnel, facilities, and goods and services. It also describes the services provided by City and County departments, divisions, commissions, and other offices, and specifically identifies levels of services that will be provided by these entities in FY95.

This Chapter is a guide to the organization of the FY95 Operating Budget.

Organization of the Volumes

Volume I provides a City-wide review of information on the FY95 budget and on the context in which it is prepared. Sections include:

- *an executive summary,*
- *a summary of the budget,*
- *the tax and appropriation orders,*
- *revenue, estimates and analysis,*
- *transition overview,*
- *program budgeting and goals,*
- *financial management in the City,*
- *capital budgeting,*
- *general laws and statutes governing the City,*
- *Boston's people and its economy, and*
- *the organization of the budget and a glossary of terms.*

In Volumes II and III the budgets of cabinets and the component deparments are presented.

The Building Blocks: Program Budgets

Activities and services of the City are grouped into "programs" for budgeting and management purposes. The budget for each department is presented on a program-by-program basis.

A "program" is defined as:

> "An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives."

For the purposes of program budgeting and program evaluation, a program can consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional City staff functions (administrative services or engineering and design).

Some City activities may not be defined as separate programs although they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.

While these program budgets serve as the basic building blocks of the budget, there are three additional organizational levels above the program level in the budget:

- *The Division Level: for budgeted units within some departments.*
- *The Department Level: which includes departments, commissions, and other offices.*
- *The Cabinet Level: which includes functionally related departments.*

The basic budget presentation is modified slightly depending on the structure of a department.

Understanding The Information Presented

Three basic components are used to present the FY95 budget. These are:

- *Description of organization, its mission, its major goals, and specific services,*
- *Financial data, and*
- *Personnel data.*

Description of Organization and Services

This describes organizational missions, services, objectives, performance measurements, and service levels for FY95.

- *Mission statement: The mission statements for cabinets, departments, divisions, and programs are fundamental statements of purpose for a unit or program.*
- *Major FY95 Goals: At the cabinet and department level these goals are the major out-*

comes for which the cabinet or department will held accountable in FY95.

- Description of Services: *These statements provide a general overview and examples of the major services that are provided by a cabinet, department or division.*
- Selected Service Indicators: *Performance measures are indicators of service provided. They include measures of workload, output, work or service quality, efficiency, effectiveness, and productivity. Some criteria for FY95 are the same as those in previous years; however, many have been refined to measure more accurately the objective being pursued. These indicators are presented at the department, division and program levels.*
- FY95 Promised Levels of Service: *For each service indicator, the department or division indicates a level of service to be provided during the forthcoming fiscal year. The program, division, and department managers have promised to produce these service levels given the funding and personnel shown in the budget for FY95.*

  In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload which the program is equipped to handle in an efficient and effective manner.

Departments or divisions report progress toward attaining these promised levels of service on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

Financial Data

The financial data identify the major groups and object codes of expenditures (Personal Services/Overtime, Supplies and Materials/Food Supplies, etc.) and the historical expenditures and proposed appropriations in these groups and objects.

Two financial sheets are provided in the FY95 Operating Budget.

Department History by Object Code: The objects of expenditure are listed within six expenditure groups. Dollar amounts are shown for:

- FY92 *actual expenditure,*
- FY93 *actual expenditure,*
- FY94 *appropriation,*
- FY95 *proposed appropriation, and*
- *The difference between the FY94 appropriation and the FY95 proposed appropriation.*

Department Personnel Data: The personnel data show funding for permanent positions, including existing and proposed positions. All permanent positions are listed by salary grade within the department or division. The total salary request is listed for these positions.

For each position shown, the following information is provided:

- Position: *An abbreviation of the job title of the position.*
- Grade: *The code for the salary grade of the position.*
- Filled 3/10/94: *The number of full-time equivalent employees in this job title as of* March 10, 1994.
- Salary Requirement: *This column is used to show the currently authorized full-time equivalent personnel quota, and the total dollars needed to fund the quota.*
- Deletions: *The full-time equivalent number of permanent positions, and the total salaries, to be subtracted from the numbers in the "Salary Requirements" column.*
- Additions: *The full-time equivalent number of permanent positions, and the total salaries, to be added to the numbers in the "Salary Requirements" column.*
- Total: *The resulting quota and the total salaries allowed in the budget.*

The total dollar, permanent personnel budget figure, shown at the bottom right of the personnel sheet, is then adjusted as follows:

- Differential Payments: *These payments are amounts paid to employees in intermittent job titles and employees entitled to shift differential payments. This figure is an addition to salary requirements.*
- Collective Bargaining: *This budgeted amount represents funds available solely to meet projected wage increases due to collective bargaining agreements under negotiation.*
- Other: *These figures, where shown, cover other payments such as sick leave and vacation buy-back, longevity pay, etc.*

Historical levels of service back to FY90 are presented for comparison purposes.

Exhibit Expenditure Groups, Codes, and Objects

Personal Services

0100	Permanent Employees
0110	Emergency Employees
0120	Overtime
0160	Unemployment Comp
0170	Workers' Comp

Contractual Services

0210	Communications
0220	Light, Heat, Power
0230	Water and Sewer
0250	Garbage/Waste Removal
0260	Repairs: Buildings and Structures
0270	Repairs and Service: Equipment
0280	Transport of Persons
0290	Miscellaneous Contractual Services

Supplies and Materials

0300	Auto Energy Supplies
0320	Food Supplies
0330	Heating Supplies and Materials
0340	Household Supplies and Materials
0350	Medical, Dental and Related
0360	Office Supplies and Materials
0370	Clothing Allowance
0390	Miscellaneous Supplies and Materials

Current Charges and Obligations

0450	Aid to Veterans
0460	Equipment Lease/Purchase
0470	Indemnification
0490	Other Current Charges

Equipment

0500	Automotive Equipment
0560	Office Furniture and Equipment
0590	Miscellaneous Equipment

Other

0600	Special Appropriation
0700	Structures and Improvements
0800	Land and Non-structural

- *Salary Savings*: *These savings, subtracted from the salary requirements calculated, are either estimated amounts projected to result from employee turnover based upon historical experience, or savings as a result of personnel reductions.*

Glossary of Terms

Account Number: The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Allotment: The amount which can be expended quarterly for personnel as determined by the terms of the Tregor legislation.

Appropriation: The legal authorization to expend funds during a specific period, usually one fiscal year. In Boston, the City Council is the appropriating authority.

Base Budget: A budget which describes the funding required to maintain existing levels of service or activity.

Budget: A formal estimate of expenditures and revenues for a defined period, usually for one year.

Budget Amendment: A change from originally budgeted quotas; the forms filed by departments with the Office of Personnel Management and the Office of Budget and Program Evaluation to justify these changes.

Capital Budget: A plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Normally financing is by long-term debt.

Cash basis: A basis of accounting under which transactions are recognized only when cash changes hands.

Chargeback: A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for centrex telephone, postage, and printing are examples.

Cherry Sheet: A cherry-colored form showing all Commonwealth and county charges and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

Collective Bargaining: The process of negotiations between the City administration and bargaining units (unions) regarding the salary and fringe benefits of City employees.

Commission: An appointed policy setting body.

Credit Balance: See departmental deficit.

Credit Transfer: The transfer of appropriations from one object code to another, within a department; the form used to effect such a change.

Debit Transfer: Moving actual expenditures from one object code to another within or between departments; the form used for such moves. Usually used as a correcting entry.

Department: A major service-providing entity of City government, established by law.

Departmental Deficit: A condition which exists when departmental expenditures exceed departmental appropriations. Also refers to the overexpended amount and credit balance.

Departmental Income: Income flowing to a specific City department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

Division: A budgeted sub-unit of a department.

Encumbrance: Funds set aside from an appropriation to pay a known future liability.

Excise: A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excises.

Expenditure: An actual payment for goods or services received.

External Fund: Money received by an agency which is not generated from City sources, such as grants or trusts.

Fiscal Year: The twelve month financial period used by the City which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

Full Faith and Credit: A pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Full-time Equivalent Position: A concept used to group together part-time positions into full-time units.

Fund: An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities, segregated to carry on specific activities or attaining certain objectives. Among the fund types used by the City are: General, Special, Trust, and Capital.

GAAP: Generally Accepted Accounting Principles. There are twelve basic principles of accounting and reporting applicable to state and local governments. These include the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed in order to provide a basis of comparison for governmental units.

General Obligation (G.O.) Bonds: Bonds for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from property taxes and other general revenues.

Goal: A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term in nature, and are not usually directly measurable in themselves. The establishment of goals helps define the mission that agencies need to carry out.

Grant Year: The grant accounting period designated by the requirements of a specific grant.

Headcount: The actual number of full-time or full-time equivalent employees in a department at any given point in time. The headcount will change from time to time as employees are hired or terminated.

Line Item: See Object Code.

Mission: A fundamental description of what is done, including a general overview of the purposes and major activities of an agency or program.

Modified Accrual Basis: The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets, and fund operating statements present "financial flow" information (revenues and expenditures). Revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Object Code: An expenditure classification according to the type of item purchased or service obtained; for example, emergency employees, communications, food supplies, automotive equipment.

Operating Budget: A legally adopted plan for anticipated expenditures for personnel, supplies, and services in one fiscal year.

Performance Measure: An indicator of work and/or service provided. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

Program: An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives.

Program Evaluation: The process of comparing actual service levels achieved with promised results; also refers to assessing,

for the purpose of improving, the way a program operates.

Program Objective: A statement of proposed accomplishments or attainments. Objectives are short-term in nature and are measurable.

Proposition 2 1/2: A state-wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2% on the increase in the property tax levy.

Quota: The planned number of positions which can be funded by a department budget. This can refer either to specific titles or to the number of personnel funded in the entire department. The quota of positions will change, from time to time, by means of a budget amendment. The actual number of personnel working in a department at any one point in time may differ from the quota.

Reallocation: A transfer by the Mayor of up to $3 million authorized under the Tregor legislation, prior to April 15, to relieve departmental deficits, or meet unanticipated financial problems.

Reserve Fund: An appropriation for contingencies.

Revenue: Income received by the City.

Salary Savings: For budget purposes, an amount that will be saved from annual turnover of personnel in any department.

Special Appropriation: An authorization to expend funds for a specific project not encompassed by normal operating categories.

Special Revenue Fund: Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

STAT: Statutory accounting and reporting which is adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

State Distributions: All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, funds for direct education expenditures, general government reimbursements and distributions.

Sub-Object: A detailed breakdown of an Object Code.

Sub-Program: A sub-program is defined discretely, for purposes of management, which along with other related sub-programs makes up a larger program.

Supplementary Appropriation: An appropriation submitted to the City Council after the operating budget has been approved, which must specify a revenue source.

Third Party Payment: Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

Trust Funds: Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

Unliquidated Reserve: A fund established at year- end, used to pay for goods and services received this year, but not billed until next year.